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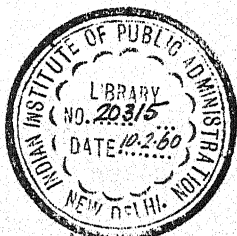
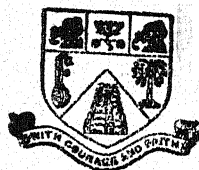
# INDIAN TRADE

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# INDIAN TRADE

BY

B. V. NARAYANASWAMY NAIDU



WITH A FOREWORD

BY

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*Head of the Indian Purchasing Mission  
in the United States of America.*

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## PREFACE

In this monograph an attempt has been made to study the various aspects of Indian Trade. Some years ago I planned to write a very comprehensive treatise on this subject and was collecting materials for it. But, with the outbreak of the war in 1939, far-reaching changes in the trends of Indian trade have come into play, and, as the present time is inopportune for a study of these changes in their proper perspective, I have decided to publish only such materials as I have on hand. As speculative thinking has no value, I have done my best to avoid any conjectures in this publication regarding the future of Indian trade. In venturing to publish this book, I make no claim to be either exhaustive or complete and there may even be grave deficiencies and shortcomings in the materials gathered and presented here; but I hope the book will provide useful information on the Indian trade problem.

My task throughout has been to give a bird's eye-view of Indian trade, its nature and

organisation; but I have made no effort either to discuss the recent trends of our trade or to forecast the future. It is true that, for example, a tremendous change has come over India's trade position. In the early stages of the war there was a heavy demand for various kinds of raw materials and for food stuffs; and as a consequence the increased offtake of Indian goods by the Allied and the Empire countries helped greatly to compensate for the cessation of our trade with the enemy countries and, on the whole, maintain the balance of trade in India's favour in spite of the abnormal conditions created by the war. The trading conditions were more satisfactory during the year 1939-40 than in the preceding two years.

The decline in the exports of jute, raw cotton and manufactured goods after April 1940 and the loss of continental markets, the adverse effects of trade restrictions arising out of the war and the limited tonnage available for trade overseas, have affected Indian trade considerably. As a remedy for these ills of our trade, several measures have been suggested such as finding alternative export markets, the adoption of measures for stimulating internal consumption, the introduction of crop-restriction schemes and schemes of amelioration for the producer through government purchases

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and other means. The Central Government also imposed restrictions on export and export licenses were also issued by the Government. Measures to regulate imports to a great extent were at the same time introduced. Another notable feature was the sending of the Gregory-Meek Mission to explore markets for Indian goods, and the establishment of an Export Advisory Council in May 1940. Altogether, much has been done by the Government of India to tide over certain difficulties confronting our trade in the specially difficult conditions created by the present war.

With all the knowledge we have of recent changes in trade, it would not be easy to predict with certainty the direction which our internal and foreign trade will take in the future. This much is certain that attempts are being made so rapidly, and on such a gigantic scale by Government and Government-aided organisations that we may well say that India "has not only contributed her fair share (to the new industrial world created by the war) but she has also gone far on the road of industrial self-sufficiency." For instance, India is now said to produce an armoured carrier which is not to be beaten in its class by any other used in the war, and an armoured car which has stood severe tests in the Libyan

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campaign. In the manufacture of such equipment it is said that the ordnance factories are now being aided "by 250 trade workshops and 23 railway workshops, and these auxiliary establishments have undertaken the production of 700 different items of munitions supply involving the production of over 2,000,000 individual articles." Authoritative pamphlets recently issued by the Government also say that "the Indian steel industry is expected to increase its total output by 33½% very shortly." India also now produces many types of naval and other cables and steel wires. Tata's have a new 'A' blast furnace, one of the world's largest—"increasing the company's annual production capacity of pig iron to 1,250,000 tons," and they also manufacture a great variety of "special alloy steels, high-speed steel for machine tools, bullet proof armour plate and other essentials" for war and industrial work. Fifty-four firms are said to have been so far permitted to manufacture machine tools in India. "Lathes, drilling, shaping, planing, slotting and hacksawing machines, furnaces, power-blowers and sand blasting plant are among the machine tools and equipment now being made in India for the first time," the output being estimated at about 400 units a month.

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The recent output of army clothing reveals a stupendous expansion of the clothing industry. The total output of garments since September 1939 is said to be over 54 million garments in the 52 months of the war of 1914-18. There are now eleven clothing factories under the Supply Department, over seven million garments being made per month. The cotton and woollen textiles industries this year produced for army supply 324 million yards of cloth. The bills for tents and blankets are said to amount to Rs. 6½ and Rs. 1½ crores respectively, "a sum very nearly equal to the total of the pre-war Defence Budget." India is said practically to hold an empire monopoly in tentage.

The war has helped not only our steel and clothing industries but also the manufacture of engineering stores of which now there are 230 new items like armoured bodies for vehicles anti-submarine and anti-air-craft sea-going vessels, artillery ammunition, many types of cables and even parachutes. Further, the wood industry has also prospered. The Indian Government in December 1940 gave an indent for timber valued at Rs. 2,89,00,000, the total purchases made by the Government of timber and timber products exceeding Rs. 4½ crores. Even in respect of drugs, chemicals and

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surgical instruments needed for the army, India is now said to supply more than 60% or over of her needs.

Altogether, the annual value of articles now manufactured within the country is colossal. For instance, in the year ending March 1941, it amounted to over Rs. 81 crores showing an increase of Rs. 33·63 crores in 2 years.

A remarkable feature of the industrial expansion now in progress in our country is the increase it has given rise to in the number of technicians available for employment. There are now over 287 centres of training and about 18,200 seats ready for the trainers; and it is said that by March 1943, 48,000 men may be specially trained for army industries. The Bevin Training Scheme helps to provide foremen for ordnance or other factories engaged in work of national importance. The Bevin Scheme has also helped to bring together the labour movements and labour standards of England and India to much nearer than ever before.

The establishment of the Eastern Group Supply Council in India and the visit of the American Technical Mission to the Government of India will give further stimulus to the industrial expansion of India.

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Thanks to Sir A. Ramaswami Mudaliar, Commerce Member of the Government of India, a Scientific and Industrial Research Board has been established, and the Board has already done much to stimulate the industrial development of the country. The stimulus already received has helped the manufacture in our factories of many commodities which were hitherto imported. The industries which have now been created by the war should continue to be fostered and developed even after the war. Such development will undoubtedly increase the quantum of internal trade. As regards foreign trade, as an aid to these industries, it would be necessary to find out new markets to stimulate an increased flow of goods from the country. As has been stressed by the Meek-Gregory Report, an attempt should also be made, after the war, to canvass buyers of Indian products through better salesmanship and a Consular Service should also be created for India. These measures are indispensable to the rapid expansion of Indian trade.

I am deeply thankful to the authorities of the Annamalai University and to Dr. Sir K. V. Reddi Nayudu, K.C.I.E., D.Litt., M.L.C., Vice-Chancellor, for the facilities extended to me for the publication of this book.

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I cannot adequately express my deep sense of gratitude to Sir R. K. Shanmukham Chetty, K.C.I.E., for the Foreword he has been pleased to write for this work.

I am indebted to Rao Saheb M. R. Rajagopala Iyengar M.A., L.T., for the trouble he took to go through the book in the manuscript stage and for reading the proofs.

In the collection of the necessary material and of data for the book, Mr. C. Jaganathachari, M.A., M.Litt., Senior Research Student, gave me most valuable assistance. I am thankful to him for the immense pains he took on my behalf and the help he gave me most ungrudgingly. Mr. T. K. Venkataraman M.A., was kind enough to prepare the index.

*Annamalainagar, }*  
*June, 1942.        }*

B. V. N.

## FOREWORD

Dr. B. V. Narayanaswamy Naidu's excellent study of Indian Trade and commerce is a timely publication. In the midst of the life and death struggle that is going on around us statesmen and students are already devoting their attention to the colossal problems of reconstruction which will face the World at the end of the war. The most outstanding of the problems will be the problem of International trade and commerce.

Since the dawn of civilization it is trade in the form of exchange of goods that brought about the contact of peoples and paved the way for political conquests and cultural contacts. The only limiting factor in the expansion of international trade was the availability of communications. With the vast improvements in means of communications which have been brought about during the last half a century a freer flow of international trade must have naturally taken place. Other factors, however, have neutralised the natural effects of improvements in

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communications. The aggressive economic nationalism of certain countries which aimed at a policy of economic self sufficiency has very greatly impeded the growth of international commerce during the last thirty years. Added to this the policy of the totalitarian countries which shaped their economic structure as a part of military strategy completed the process of blocking the natural flow of trade and commerce.

Whether the present World conflict is a result of economic factors or the mere lust for power on the part of a few dictators, it is realised that a better and more prosperous World Order can be built only upon a more equitable distribution of the wealth of the World and by facilitating a freer exchange of goods among the nations of the World. The master agreements which the United States have concluded with Great Britain and other countries that receive Lend Lease aid from the United States is based on the fundamental assumption that post-war reconstruction must essentially be based on a freer exchange of goods amongst nations. The recent statement of President Roosevelt that there will be no day of reckoning in settling the obligations arising out of Lend Lease is a further proof of the determination of the great American

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people to establish a more rational economic World Order.

India with her vast resources is bound to play a vital part in this reshaping of the economic order of the World. One new factor that is likely to emerge in the relation between India and England is that India may become a creditor of England and thus reverse the position that has existed for many years. In shaping our post-war economic policy we would necessarily have to take into account these new developments. Whatever might be the ultimate policy that may be adopted, a study of the past and the present conditions is indispensable for an intelligent shaping of the future. Dr. Narayanaswamy Naidu has done a real service in giving a clear analysis of both the internal and external trade of India.

R. K. SHANMUKHAM CHETTY.



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## CHAPTER I

### *Importance of Indian Trade.*

A COUNTRY'S economy is a cycle of all activities connected with production, distribution and consumption of goods and services. Any part of that cycle is as important for the commonweal as any other and every process in the whole movement serves the rest. There cannot be mass production, for example, without adequate facilities for quick, easy and efficient distributive services, even as there cannot be brisk exchange of goods on a large scale unless the productive powers of the country are correspondingly well developed and organised. Production and distribution both depend upon the people's purchasing power and their ability to strive for a better and a still better standard of living. Trade is exchange of goods and its role in furthering national welfare consists in the most satisfactory distribution of goods for the betterment of the citizens. Since the day when man emerged from his primary agricultural stage to the

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stage of crafts and industries, trade has been playing an ever increasing part in social organisation. Often the resources of the world have remained untapped, because the means of transport and organisation for the distribution of goods have not developed sufficiently. When new trade routes were opened, new arrangements for regular traffic made, and new regions explored, man found that trade could easily raise his standard of comforts. Commercial intercourse has been one of the most potent factors working for the unification of the human race. Collision of cultures, merging of civilization, spreading of religions, arts and sciences, the urge for empire building and, above all, the thirst for knowledge have been very well served by developments in trade. In recent centuries the marvels of modern transport improvements and advancement in communications have rapidly linked the distant countries of the world in a very intimate fashion. The goods produced in one locality are demanded in far-off regions, and the dinner table in any one country displays articles brought from far and near. The growth of trade has ever been governed mainly by the advancement in transport facilities. Modern mechanised transport has stimulated agricultural production and industrial activity to

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an amazing degree. Great productive activities in turn have forced the increase in the volume of long distance and short distance trades. Real trade is satisfactory and free exchange of goods and is therefore mutually beneficial to the parties concerned. It enriches the seller as well as the buyer and keeps both of them active and comfortable. We are now living in an economically interdependent world, one region producing for the rest and receiving the products of others. There seems to be a widespread co-operative effort aimed at the common elevation of man. We discern a general division of labour, sustained by trade, among the nations of the world for the exploitation of the earth's resources. It may be that this great international division of effort was subjected to vital changes in the recent past. It is no doubt true also that in actual practice certain countries, or regions, seem to be more benefited than others. It has to be admitted too that trade offers ample scope for frictions, rivalry and conflicts. But the fact remains that modern trade is vitally necessary to all alike. To know the enormous importance of trade one should for a moment imagine what would happen to us if there were no trade at all; in other words, what would happen if the transport and commercial services

stopped altogether. To be sure, the giant industries of the world would be crippled and millions of people would starve for want of provisions. There would be no limit to the unemployment of men and things. In spite of plenty people may perish. To do without modern trade organisations is therefore to invite terrible disaster. The lesson of the slump which began in the year 1929 is that trade is the very life blood of modern civilisation; without it humanity will not be able to maintain its swelling populations, and a return to the life of the jungle may become a necessity. Trade, therefore, is the life-breath of the complicated economy of every nation, big or small, imperialistic or enslaved. The nature of trade and the degree of its importance may differ between countries but its common service to the ordered progress of humanity cannot be questioned.

**CLASSIFICATION OF TRADE:**—Strictly from the economic point of view trade can be divided into long-distance and short-distance trades. But the existence of national control of industries and commerce necessitates the classification of trade into internal and foreign. This political conception of exchange was due originally to the great importance attached

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to foreign trade by the mercantilists. Though the crudities of Mercantilism have been subsequently corrected, the separation of foreign trade and domestic trade has been retained on certain scientific grounds. It is contended that the agents of production move within a country with ease and swiftness, but between two countries there is considerable lack of mobility of capital and labour. Different currency and monetary systems, national regulation of trade and industries, the risk of war, and the existence of separate languages, religions, races etc., have operated forcefully in discouraging the free and unlimited mobility of the productive factors. These obstacles do not justify the separation of foreign trade from domestic trade in the theory of exchange. But, for a practical study of the economic trends, we have to recognise the reality of economic nationalism and therefore the distinction between foreign and domestic trades becomes inevitable. A country is, mainly a political block, and, for the separate study of its economy against the background of the world economy, we have to adopt the above mentioned classification which is mainly political in conception.

In almost all countries statesmen have generally paid an exaggerated attention to

foreign trade and neglected internal trade as only of secondary worth. This was mainly due to the mercantilist notion that wealth consisted in the possession of precious metals and that foreign trade alone could bring home an enormous amount of bullion. The aim of the state was therefore to regulate the external trade of the country in such a way as to increase exports and decrease imports so that the resulting favourable merchandise balance might attract the precious metals from foreign countries. Even after the end of mercantilism the vital importance of internal trade was not fully realised. The *laissez faire* economic policy which ruled the world throughout the nineteenth century and till 1920 did not correct the popular faith that foreign trade was more important for national welfare than internal trade. Several writers have considered the growth of foreign commerce as the sure indicator of national progress. The fallacy of identifying international trade with world trade persisted and the belief that external trade was the only real index of a nation's economic prosperity prevailed in the mind of the general public for long. After the last great war, *laissez faire* gave place to protectionism. The days of liberal economics were over and the free trade international commercial organisation was being slowly but surely

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damaged. Government intervention in the economic affairs of individuals increased. The rise of tariffs and the consequences of disorganised currencies forced every government to think about the fundamentals of national economic welfare. Foreign trade was no longer free but was at the mercy of the cumulative forces generated by different commercial and currency policies. No single country, however big or strong, could stabilise the currents of external commerce. Governments had, therefore, to turn their attention to the development of internal trade. They realised, more than ever before, the immense value of fostering internal economic growth. The ideal of economic autarchy being recognised by the leading industrial and agricultural nations, internal trade was given a superior place to that of foreign trade. The great depression accelerated this tendency and today there is hardly a single country which formulates its economic policy according to the mercantilist belief that external commerce is more vital to the nation than the internal.

In India, too much of stress has always been laid on foreign trade. This is due to some reasons very peculiar to India. She is a subject country and her trade, internal as well as external, is being regulated mainly

by a foreign government whose interests are not identical with those of the people of India. A national government is more likely to pay due attention to internal trade but not Great Britain which is interested in increasing her trade relations with India even at the expense of Indian economic progress. The absolute lack of statistics for internal trade while ample figures are available for the study of foreign trade is a clear proof of the attitude of the Government of India. Further, India has become, for historical reasons, a great debtor country. An annual favourable merchandise balance has to be somehow or other secured in order to pay off foreign commitments; otherwise India's economy would be in peril. Hence, economists in this country have been attaching great importance to foreign trade problems. But since 1923 increasing recognition has been given to the enormous potentialities of India's internal trade. The policy of discriminating protection, though half-hearted and inadequate, has stimulated a healthy interest in internal economic development. As the demand for economic self-sufficiency increases, the public would be obliged to pay greater attention to the fostering of national industries and internal trade.

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The present unsatisfactory condition of Indian trade can be well understood only with reference to the past. In the history of commerce India held a pre-eminent place in ancient days. The well-known fact that Egyptian mummies were wrapped in Indian muslin is an index of the glorious record of Indian industries and commerce before the Christian era. Pliny paid a glowing tribute to Indian manufacturing and shipping, when he complained that a vast amount of money was accumulating in India because of her successful commercial adventures. Indian traders established regular commercial intercourse with the Greeks, Persians, Arabs, Chinese and other races. They supplied distant markets with textile manufactures, spices, ivory, dyes, metals etc. and brought home different metals, particularly gold, minerals, horses, and wine. The ship-building industry was in a very prosperous condition and hence Indian merchantmen could organise a lucrative carrying trade. They imported silk and porcelain from China and re-exported them to the West. India served, as it were, like a great warehouse needed by the countries on the East and the West. Judged by contemporary standards, she was almost the leading manufacturing and commercial nation till the beginning of the modern era. This proud

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position was retained by her till the Mogul Period in her history.

However, the tide turned after the 18th century. England conquered India step by step and soon she was blessed with the appearance of the Industrial Revolution, which was mostly facilitated by the vast amount of money taken to England from India. The good fortune of England lay in the fact that she possessed an overseas empire even before the effective beginnings of industrialisation and hence she had the golden opportunity of developing a powerful imperialist regime. In order to secure lucrative markets for her manufactures and to guarantee for herself a big reservoir of raw materials, foodstuffs and tropical goods, she adopted an economic policy which resulted in the destruction of Indian industries and trade. India was allowed to remain as a predominantly agricultural country with her great industrial powers untapped or under-developed. Her economy became complementary to Great Britain's; she imported manufactures from England which she could herself have made and supplied to the latter. It is common knowledge that an agricultural economy is essentially weaker than industrial and commercial economies, and any undue dependence

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on the part of a predominantly agricultural country on a foreign industrial nation usually works against the national interests of that country. India's status was reduced to that of a dependent economy of Great Britain. In the past she supplied half the civilised world with cotton manufactures, but today she is struggling hard against foreign competition even in her own market.

This downward trend towards rapid deterioration was the result of several factors, political and non-political. We are concerned here only with the fact that today India is one of the very backward countries from the point of view of trade. Her economy lacks balance and strength owing to lack of industries and the low standard of living of her people must surprise the thinking world. She cannot boast of economic strength to develop military defences. Her *per capita* trade is too low to be neglected. She lacks transport facilities and other auxiliary services, but is at a loss to know how to organise them without the active cooperation of Great Britain. But owing to her great resources she seems to have a great future.

To the nationals of India the importance of Indian trade lies in the supreme fact that

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the country is continental in dimensions, teeming with population and possessing great potential wealth, agricultural and mineral. The abject poverty of the people can be alleviated, and the prevalent unemployment of the masses as well as the educated classes solved, only if the country is fast industrialised and her internal trade efficiently organised. A large market, great resources, abundant labour—these are cardinal points calling for an immediate drive for industrialisation. At present internal trade is at the mercy of the foreign and this state of affairs has to be corrected at an early date. A policy of self-sufficiency is more easily within the reach of India than it can be for most other nations of the world. It is not a day too early to begin planning India's trade so that a good beginning may be made along the spinal path to prosperity.

To foreigners Indian trade and its trends are important for several reasons. India is a great supplier of several valuable raw materials like cotton, jute, oilseeds, lac, hides and skins etc. The factories of England and other European countries owe a good deal of their prosperity to India. Another attraction about India is that she has an immense market worth a hard struggle. The keen rivalry

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among England, France, Germany, Italy, U.S.A., and Japan to capture Indian markets reveals the high place India occupies in world commerce. It is not in vain that the European nations started their maritime adventures to explore new sea-routes to India. As she offered in the past, she continues to offer even to-day unlimited possibilities for exploitation. It is well-known that England's industrial superiority was almost solely originated by her control over the Indian market and her political leadership was closely connected with this rich economic possession of hers. Since the beginning of the nineteenth century British diplomacy has been chiefly directed towards controlling the countries which border the sea-route to India. Her anxiety to maintain balance of powers in Europe and her attempts to keep Japan out of India have been actuated by the necessity to preserve for herself the fruits of the Indian empire. There are several eminent men who think that European struggles for supremacy are indirectly inspired by the Indian market. When, during the slump, England was feeling a decline in her industrial and commercial supremacy, she chose to envelop the Indian market in the orbit of imperial preference. The Ottawa Pact of 1932 was itself a powerful source of strain

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and strife among the big industrial countries. No greater proof is needed to show that Indian trade is of paramount value to the progressing nations in the two hemispheres.

The interests of foreigners in Indian trade are often served at the expense of Indians. If Indian manufacturers and merchants are to thrive, the Government must come forward to give them all possible help to keep off avoidable imports. Indigenous industries and trade may have to develop to a great extent at the expense of foreign producers. But there is one noteworthy fact about which all are agreed. Every attempt at increasing the standard of living and the purchasing power of the vast masses of India will increase the room for expansion both for the indigenous producer and the foreign importer. It is to be remembered that great industrial countries are important markets for each other's goods. There is indeed a very large scope for complementary industrialisation. Indian industrial development may not totally retard her imports and may open new room for novel imports.

A plan to reconcile conflicting interests is needed. What is wanted is a well thought-out

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and far-sighted plan which may reconcile conflicting interests at present and swiftly lift India to a status of equality with the powerful commercial nations of the world.

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## CHAPTER II

### *Internal Trade— its nature and organisation.*

**I**NTERNAL trade is of immense value to countries like India covering a variety of soils and climates and producing different kinds of minerals. Unlike small countries with limited resources, India need not depend upon foreign trade for rapid economic progress. She is a big tropical country with an extensive market of her own. The scope for internal trade and self-sufficiency in production and consumption of goods is very promising. The great magnitude of internal trade is well brought out by Mr. Worswick in "The Economic Resources of the Empire" where he says that "if India's total agricultural produce is taken into account, calculations show that, for every acre of land producing goods whether grains, oilseeds, fibres, tea etc. for export, eleven acres are cultivated for local consumption." The huge exports of cotton, jute, rice, wheat, oilseeds etc. form only a

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small proportion of the total internal production that is being annually consumed within the country. If the non-agricultural production is added to the agricultural, it can be easily seen that internal trade is of great magnitude.

During the nineteenth century it was broadly true that the importance of internal trade to a country mostly depended upon its size. Since 1920, however, a tendency has been observable shifting the importance from foreign to internal trade. While international commerce has slackened in progress, internal production has everywhere speeded up. Want of international co-operation and the fear of war have stimulated the drive for economic self-sufficiency. India has had her own humble share in this world trend. Here, as elsewhere, internal trade has been rapidly growing since the last Great War.

**LACK OF STATISTICS :—**A proper study of India's internal trade is severely handicapped for want of statistics. While figures are available for the coastal trade, a part of which forms foreign trade, matter relating to inland trade is meagre, inaccurate and unreliable. The Government of India used to publish "Inland Trade (rail and river-borne)

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of India" every year. Every province published a similar annual regarding the inland trade. These publications contained only scanty and unsatisfactory statistics. They referred to inter-provincial trade only and the intra-block and inter-block figures were omitted. Further the figures related only to the quantity and not to the value of goods moved from place to place. It is unfortunate that even this unsatisfactory publication of 'Inland Trade' was discontinued from 1923 to 1933 as a measure of retrenchment. Since April 1933 the Government of India have been publishing 'Accounts relating to the Inland (rail and river-borne) Trade of India.' This new publication retains the defects of the old and the Indian public are still not adequately served by this statistical summary.

### *Estimate of the Value of Internal Trade.*

There have been several attempts at estimating the value of internal trade. The Provincial Banking Enquiry Committees, the Indian Central Banking Enquiry Committee, and Messrs. Wadia and Joshi have tried to assess the value of internal trade. The Indian delegates to the World Economic Conference of 1927 have worked out their own estimate.

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But those estimates differ very widely. According to "Inland Trade of India" for 1920-21, the inland trade of India was to the tune of 1,500 crores, the proportion between domestic trade and foreign trade being  $2\frac{1}{2}:1$ . Prof. K. T. Shah's estimate comes to Rs. 2,500 crores. Some writers believe that the proportion of exports to internal trade is 1:16 or 1:11. These estimates do not give useful information because they have failed to make a clear distinction between internal trade and marketing operations. The Government of India must therefore come forward to improve the statistical publications regarding inland trade. As the Economic Enquiry Committee advised, they should provide the commercial public with the same kind of elaborate and useful returns as are provided in advanced countries like the U.S.A. Supply of information is the most important requisite for a policy of systematic and rapid development of the internal trade of this country.

IMPEDIMENTS IN THE WAY OF A RAPID DEVELOPMENT OF INTERNAL TRADE:— Though there are rich possibilities for the development of internal trade, there are also numerous difficulties to be encountered. The scope of trade is determined by the available

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means of transport. India is a very extensive country with numerous hills which do not offer paths across them. The rivers of India have not yet been adequately utilised for agricultural purposes. Several of them are yet to be crossed with regular bridges. Further, the railway mileage for the whole of India comes only to about 45,000 miles, while metalled roads are no more than 85,000 miles. On the basis of the 1931 census figures, it has been calculated that, for every 100 square miles, we have 6.8 miles of surfaced roads and 24.19 miles of surfaced and unsurfaced roads. The Indian Agricultural Commission have pointed out that similar figures for the U.S.A. are 12.05 miles and 80 miles. Roads in India are not only inadequate but badly kept. More than 95% of the transportation by road is being effected by slow-moving bullock carts. Though bullock carts are popular because they offer cheaper transport facilities than mechanical transport, in the long run the volume of internal trade can increase and better distribution can be facilitated only if mechanical transport is popularised. The inadequacy of the roads has been a great handicap for the villager who finds today that proper marketing of his produce has been rendered very difficult

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for want of cheap and quick transport facilities. Being denied cheap access to important trade centres the villager has to sell his produce at a very low price. The prices of agricultural products are determined by the world prices and, as the transportation cost increases, the money realised by the agriculturists correspondingly decreases. Adequate village roads must be provided for, so that the agriculturists' purchasing power may be increased and the rush of articles from towns to villages facilitated. The present road mileage should be extended to five times its present length. This vital nation-building activity should not be retarded by principles of conservative finance.

As regards railway lines, India stands low in comparison with foreign countries like U.S.A., Canada, South Africa, New Zealand and Argentina. Though the extreme poverty of the people has to some extent prevented the extension of railway lines in India, there are several areas which would be well served by the extension of railway lines. The public have ever felt that the railway finance must be reorganised and improved. There is a vast scope for cutting down the overhead expenditure. As regards the railway rates policy the ruling principle which

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guides the railway administration today seems to be "what the traffic will bear."

**THE RAILWAY POLICY:—**Rates between ports are fixed lower than the rates between inland centres, so that foreign trade and coastal regions are better served than the interior. The present high rates must be reduced and agriculture and industries must be shown special facilities so that in the long run the increasing purchasing power of the people may make railway service pay to the entire satisfaction of the administrators. The Indian Railway Act has vested certain discretionary powers with the authorities for changing the railway rates between the maximum and the minimum rates fixed. This discretion has often been used in favour of foreign interests or to uphold industries in some places and depress similar ventures in some quarters. While almost the whole of the capital sunk in Indian railways is state-owned, it should be possible for the administration to follow a national policy and stimulate internal industrial enterprise. No doubt there is the Railway Rates Advisory Committee to examine the claims of Indian manufacturers and traders and to supervise the rates policy of the administration. But red-tapism and lack of initiative make that body inactive and ineffective.

*The system of reactions  
in govt & other public  
offices.*

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**MOTOR VEHICLES ACT:—**While thus the railway policy works against the growth of internal trade, there are several other factors which add to the handicaps. Provincial Governments have not followed a policy of favouring expansion of transport facilities. The recent revised Motor Vehicles Act created provincial and regional transport authorities who are empowered to allocate classes of goods to the railway and the road transport and to regulate the rates within specified limits. The taxes on petrol and fuel oils have increased the cost of inland transport and thus retarded the growth of internal trade.

**INTERNAL TAXES:—**Growth of internal taxes has been another factor detrimental to trade development. Since the acceptance of Office the Congress ministries have had to introduce numerous local taxes. Lack of coordination and uniformity in the tax systems has, in practice, hindered the growth of trade in some places, diverted trade in some parts and positively discouraged the flow of goods in certain areas. Further the provincial governments have shown a tendency to deprive the local boards and municipalities of certain important sources of revenue. The policy of provincialising

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entertainment taxes, license fees, tolls etc. has depleted the revenues of the local boards which could not therefore launch a planned policy of road development. Hence internal trade suffers a good deal.

**INTERNAL TARIFF BARRIERS:—**Internally, India is not one extensive free trade area. The numerous native states form tariff barriers blocking the free flow of goods from place to place. Though the height of tariffs between Indian States and British Indian Provinces is not considerable, it is sufficient to promote competitive enterprises within the states. With the constitutional developments in the states, the customs revenue is bound to prove more and more important for their exchequers. This would involve a gradual rise in tariffs and a powerful hindrance to the growth of the internal trade of India. Already there is a widespread feeling that the high taxation policy of the provincial governments has tended to discourage British Indian industries and to encourage the localisation of industries in the Native States. Freer trade within India can be established only when, as part of India's constitutional development, full co-operation between the States and the Provinces is attained.

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COASTAL TRADE :—The position of coastal trade is most unsatisfactory. It has been very difficult to calculate the exact tonnage, but roughly about 4 million tons of merchandise move from one part of the coast line to another. Coastal shipping is almost completely governed by foreign interests which enjoy the profit but do not fail to smother Indian enterprise. According to Mr. H. N. Haji, nearly Rs. 57 crores accrue as annual profit to the foreign shipping companies. Only 23% of the coastal traffic is controlled by the Indian shippers. Even this share has been seriously threatened owing to the ravaging rate wars declared by the foreign 'conference' companies against indigenous concerns. The deferred rebate system has effectively prevented goods and passenger traffic from diverting to Indian ships. The Government have been encouraging British shipping concerns at the expense of the Indian interests by granting them contracts to carry government stores and mails. In spite of persistent public agitation the Government have stubbornly refused to reserve the coastal trade to Indian shipping and to develop an Indian mercantile marine. On the other hand, the new Government of India Act has entrenched more strongly than ever before, the monopoly position of British

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concerns by providing that no discrimination against British Commercial interests should be allowed. Unless the coastal trade and shipping policies are completely nationalised, internal trade will continue to suffer from one of the heaviest blocks in the path of progress.

TRANSPORT COORDINATION :—The introduction of new means of transport has given rise to the problem of coordinating different services in order to eliminate unhealthy and wasteful competition and to regulate the transport services along the path of maximum efficiency and service. The Report of Messrs. Mitchell and Kirkness suggests certain measures of tackling this road-rail competition problem. The Road-Rail Conference which met at Simla in April 1933 recommended that the railways might be permitted to run road motor services and that monopolies of road transport services might be granted. They also suggested the creation of central and provincial bodies for securing the most satisfactory coordination of the competing means of transport. No doubt in the advanced countries of the West, the governments are following a policy of co-ordinating transport services for the development of internal trade. Even in India

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attempts at coordination have been tried, with some success in Travancore and Hyderabad. The advantages of coordination are, no doubt, numerous, provided the powers that coordinate have national development in mind and not any indirect or direct encouragement of foreign economic interests. Even the District Boards have been authorised in some provinces to run bus services and thus the internal trade of the country is placed at the mercy of several authorities. Local bodies, the provincial governments and the central government all retain powers of interfering, in a variety of ways and in different degrees, with the free flow of goods and passengers. In order to attain quick and cheap transport there should be a coordination of the authorities as well as the services concerned. Above all the Central Body which governs the railway, motor transport, inland waterways and coastal shipping must be actuated by motives of pure patriotism. A reorientation of the transport policy would remove the greatest obstacle to the rapid development of indigenous industries and internal movement of merchandise.

*influenced*

**AGRICULTURAL MARKETING:—**The proper development of agriculture is closely bound up with the question of agricultural

*a position of land  
has fallen down.*

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marketing. The recent phenomenal landslide in prices is in no small measure due to lack of proper marketing facilities and it cannot be denied that, even in his most prosperous days, the Indian agriculturist never got the maximum price his commodities *could* have fetched. It is a common phenomenon in this country to find the agriculturist trying to sell his produce as soon as the harvest is over, even though the market is glutted with the same goods and prices have fallen. He is obliged to do so since he has often to meet the insistent demands of his creditors, to pay the kist or other seasonal obligations, or has no facilities for safe storage and hence he invariably sells at the lowest price and thus gets only a scanty return for his labours.

He labours also under many other disadvantages that arise from lack of standardised weights and measures, absence of grading, want of proper inspection of goods, secret settlement of prices by agents and brokers and the use of false and incorrect weights and measures. While these are his difficulties in the internal market which accounts for more than 1,000 crores out of 1,200 or 1,300 crores worth of agricultural produce, his disabilities in the external

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market are none too light. The absence of a unified selling organisation has not only resulted in unsettlement in the quality and specifications of goods and consequent ignorance in foreign markets of the real quality and quantity of his merchandise, but in lower prices for his wares, in deficiency in advertisement and in the creation of an impression in other countries that India cannot supply highgrade products.

**CENTRAL MARKETING** :—These difficulties cannot be overcome without taking into account the essential functions of marketing viz., collecting and assembling, transportation, wholesale distribution, retailing, risk-bearing, and financing in all stages. The foremost remedy for this state of things is the establishment of Sellers' Cooperative Societies which will prevent seasonal dumping and help the ryot to get credit till his goods are sold and to store his products and arrange to release them for sale at proper intervals. Such organisations can improve merchandising practice, help in the careful grading of commodities, provide for improved methods of advertisement, regulate the quantity and quality of supplies to different markets, increase the bargaining power of the producer and eliminate trade abuses. This will

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tend to great economy in marketing and serve to restrict the activities of middlemen. Such associations may be formed for definite areas and linked together in a central organisation.

CHAIN OF WAREHOUSES NEEDED:—The problem of agricultural marketing cannot be solved without improved communications, increased transport facilities and lessening of freights. A chain of private or railway warehouses has also to be established to facilitate storage of goods; and the vouchers of such storage can be given by law the validity of negotiable instruments. The grave handicap of indebtedness and lack of credit must be removed by the formation of financing companies for the marketing of goods and by liberal provision for agricultural credit by the Government.

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## CHAPTER III

### *Growth of India's Foreign Trade.*

**I**N order to understand fully and clearly the nature and organisation of India's foreign trade, one must study the trends of Indian commerce since the advent of the British. Territory after territory in India came under British control during the latter half of the 18th century. The same period offered England the great boons of industrial revolution, new methods of manufacture, and enormous developments in transport. Mining, banking and other services stimulated British productive powers with great energy. The combination of technical superiority in production and political control over India resulted in the speedy disappearance of Indian industries and shipping. British colonial policy deliberately destroyed India's prospects of industrialisation and reduced her to be a supplier of agricultural products and raw materials to the home country. She was to receive the products of British manufactures for

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increase in the standard of living of her huge population. The policy of complete free trade was not a little responsible for the extraordinary revolution in India's trade. She was reverted from an enterprising commercial nation to a docile agricultural country meekly supplying raw materials to her rulers and readily purchasing articles which she could herself have attempted to manufacture. While thus India deteriorated, England progressed from an agricultural stage to industrial and commercial pre-eminence in the world. It must be remembered that the above two trends, rapid and opposite, were not entirely unconnected; in other words India's deterioration was partly due to British control and British prosperity was possible because of her extensive Indian possession.

FROM 1870 :—The opening of the Suez Canal in 1869 marks the beginning of a new era of Indo-European trade. The canal reduced the distance between England and India by about 3,000 miles compared to the old route. It encouraged the use of steamships, dragged the Mediterranean countries into active commerce, offered facilities for quicker transport of bulk goods and thus restored the Mediterranean route to its ancient importance. It stimulated agricultural

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production and brought new areas into cultivation. India's raw materials could be more easily taken to the continental factories and the Indian market could be more readily exploited by European manufacturers. Suez Canal thus offered a fillip to European industrialisation and encouraged agricultural production in India. From 1870 a great growth in Indian foreign trade was observable.

(In crores).

Quinquennial Period	Imports	Exports	Total
1864—65 to 1868—69	31.7	55.9	87.6
1879—80 to 1883—4	50.2	79.1	129.2
1894—5 to 1898—99	73.7	107.5	181.2
1909—10 to 1913—14	151.7	224.2	375.9
1924—25 to 1928—29	251.0	353.5	604.5

There has been a continuous expansion of foreign trade since 1870. Several factors contributed to this progress, the most important of which were: the Suez Canal; improved means of communication due to roads, railways, posts and telegraphs; the rapid development of European shipbuilding industry and consequently the lowering of freights, etc.; the abolition of numerous internal duties in India and, above all, the establishment of peace and order under the

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British who were interested in fostering Indo-British trade. From 1873 to 1893, however, the growth of trade was considerably retarded by the great famines which ravaged different parts of India, and by the appreciation of the Rupee in terms of gold.

The position of India's foreign trade before the Great War of 1914—18 was briefly this: Four chief features were clearly discernible, *viz.* (1) the predominance of raw materials in exports and of manufactured goods in imports (2) the gradually increasing excess of merchandise exports over imports; (3) the predominant role of the United Kingdom both on the import and on the export side of Indian trade and (4) the adoption of full free trade fiscal policy. Even since the middle of the 19th century the share of the U. K. in India's trade has been progressively declining, though in 1912—13, as even today, she retained the first rank among India's customers. From 53·2% in 1866—67 to 1869—70 her share in India's exports declined to 25·5% during the period 1909—10 to 1912—13. It was clear that, owing to the intensity of competition from her industrial rivals, old and new, and partly because of the rise of one or two important branches of manufacture in India, the Indo-British trade was

gradually losing its importance. The first decade of the twentieth century taught the U. K. the necessity of tightening the control over India's exports and imports. Commercial trends urged the abandonment of the open door policy and the formation of the British Empire Zollverein. But the industrial supremacy of England was so great that she chose to wait until a great crisis forced her to reorganise her imperial fiscal policy.

One noteworthy feature of India's pre-war trade was the steady and rapid development of trade connection with non-Empire countries. Trade with central European powers, U.S.A., and Japan, the rising power in the Far East, rose in importance. The imports from these countries were well suited to Indian requirements because of their speciality and lower prices. These countries were also profitable markets for Indian exports. A careful study of the progress of these non-Empire countries before the war reveals certain clear under-currents in India's commercial career. Firstly, self-governing countries began to industrialise and compete with the U. K. as amongst themselves, while India remained an agricultural country and a mere market for foreign manufactures. Secondly, the rising

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favourable trade balance with countries other than the U. K. had to be preserved and developed since India's obligations to the U. K. mounted up while Indo-British trade relations failed to secure a net merchandise balance. In other words, triangular trade became a necessity for India. Thirdly, in the intense competition of the foreign countries in the Indian market, a kind of triangular struggle developed and gathered strength. India's debtor position necessitated the encouragement of non-Empire and non-British trade, while British interests were keen on discouraging the growth of non-British trade relations. Britain's chief problem seemed to be primarily to defeat her rivals in India and secondly to devise a method by which she could dominate Indian economy without estranging Indian public opinion. If the interference of Great Britain in Indian commerce since 1920 is read against the background of the trend from 1890—1914, it will be found that the motive forces which controlled the post-war developments were the inevitable results of pre-war tendencies. The main features of the Indian commerce of today remain much the same as before 1914. The great struggle among India, Britain and non-Empire countries has only intensified during the last two decades.

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The last Great War gave a severe setback to Indian commerce. The imports came down from 191 crores in 1913-14 to 164 in 1917-18 while the exports were reduced from 249 crores to 245 crores. The war period recorded a decline of 48% in Indian foreign trade. However since the fall in imports was greater than that in exports, India enjoyed an increasing trade balance.

India did not take full advantage of the European war. The cessation of Indo-German trade was felt as a hard blow to Indian commerce. The loss of trade relations with the central European countries and Russia was considerable. Military moves and hostile interference with trade routes to neutral countries resulted in tremendous increases in freight rates. The destruction of wealth, the devastation of regions and the turn given to industrial activities towards armament production reduced European purchasing power. The difficulties of finance and shipping facilities and the restrictive measures of the Continental Governments reduced the scope of Indian commerce. India's industries which depended on foreign supplies of machinery suffered when the imports were curtailed. The contraction of foreign markets dealt a blow at Indian agriculture,

while hostilities offered golden chances of commercial success particularly for Japan and the U.S.A. The gap caused by the elimination of the central European powers in the import trade could not be filled up by Britain since she was fully engaged in war time activities. Japan and U.S.A. had kept out of the European turmoil during the initial years of the war and hence they could concentrate on the capture of the Indian market. The inroads of Japan were pronounced in textiles, while U.S.A. made headway in the metallurgical trades.

The internal production of India received a powerful fillip while the war was going on. The curtailment of trade and the free gift of £100 millions to England necessitated greater revenue and this situation naturally introduced a period of rising tariffs. From 5% before 1916 the general tariff of India had risen to 11% in 1921—22 and to 15% in 1922—23. This was a propitious movement for internal productive activities. The rise in railway receipts, the increase in the number of joint stock companies, the phenomenal rise in industrial securities as compared with the securities of the government, the increase in the percentage of manufactured exports and the decrease in the percentage

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of exports to total internal production—all point to the sudden growth of internal production and trade under the ægis of war conditions.

A comparison of the figures of export and import of India with those of other important countries during the years 1914-19 reveals that India was one of the worst sufferers from the European war. Canada, Argentina and Brazil could speed up their industrialisation to a remarkable degree and they became competitors of India in several important international markets. The war served as a universal protective tariff and U.S.A., Japan, Australia, South Africa and other countries made the best use of the prevalent war-time insecurity. Lack of fiscal freedom and national planning prevented India from securing the maximum benefits out of the world war.

Economic nationalism was one of the most important bye-products of the war and this new impulse was the motive power for the rapidly increasing tariff restrictions seen throughout the post-war world. The dangers of excessive dependence on foreign countries were realised and for a time the reaction resulted in an irrational protection of the

international currency link, (*i.e.*) the gold standard, which started erratic inflation amongst the belligerents as well as the neutral countries. Currency chaos aided the uncontrolled pursuit of the ideal of economic nationalism. Political currents became forceful and the advantages of free trade principles were fast ignored in practice though they were accepted in theory. The economic rehabilitation of Europe was made very difficult by the excessive demand of reparations from Germany. The misguided policy in the composition as well as the management of the reparations prevented free and secure international lending and thereby intensified the race for a national economic policy. The fourteen new states created by the treaty added to the confusion of international trade relations and facilitated the increase of tariff walls. The spectacular success of the Far Eastern industrialisation as well as the possibilities of the Soviet State monopoly of foreign trade intensified the policy of protective tariff. The tendency to close up the home market and at the same time seek to expand external markets became widespread. It took five years and more for the important countries to stabilise their currencies and to return to gold. It was only after 1925 that, under the leadership

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of Great Britain, the move for stabilisation began. But, while almost every country succeeded in fixing an exchange parity at a depreciated level (compared to the pre-war parity), India was one of the very few countries to adopt an appreciated ratio. The change in the centre of gravity of production from European to non-European countries, the rise of new industrial powers, different price-levels in different countries, the new alignment of exchange rates, the increasing sway of nationalism—all these forces were slowly working during the period 1919 to 1929 and burst out into the slump after 1929.

The war had increased India's public debt. Once in 1920 and again in 1926 the rupee ratio was artificially fixed at high levels and enormous administrative action had to be effected to prop up the rate of exchange. India's fiscal autonomy was nominally recognised by a convention set up under the Montford Reforms. The policy of discriminating protection, adopted since 1923, has been anything but satisfactory. While other countries were doing their best to organise largescale industries and to expand their overseas markets, India was groaning under the overvalued rupee, the *laisse faire* policy

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of the Government, a lukewarm tariff protection, and ever increasing inroads into her market. Great Britain showed signs of increasing her economic hold on India. She tried to persuade the Indian Legislature to adopt imperial preference in 1920 but in vain. But differential duties in favour of the United Kingdom goods were introduced in 1925 when tariff protection was given to steel and the way was prepared for the general adoption of the policy in 1932.

The following table shows the growth of exports and imports during the years 1919 to 1929:—

Value of seaborne merchandise including Government stores.

(in crores)

Year	Imports	Exports	Net Exports
1919—20	221.7	336.0	114.3
1920—21	347.56	267.76	—79.80
1921—22	282.59	248.65	—33.94
1922—23	246.19	316.07	69.88
1923—24	237.18	363.37	126.19
1924—25	253.37	400.24	146.87
1925—26	236.00	386.82	150.82
1926—27	240.82	311.05	70.23
1927—28	261.53	330.26	68.73
1928—29	263.4	339.15	75.75
1929—30	249.71	318.99	69.28

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It is clear that there was a declining tendency in the balance of trade during the periods 1919—20 to 1921—22 and 1925—26 to 1927—28. During the period 1919—20 to 1928—29 exports increased only by about 3 crores, while the imports rose by 41 crores. This correspondingly reduced India's favourable balance of trade.

Now, some characteristic changes in the post war export trade of India should be noted. There has been a steady increase in the growth of manufactured exports e.g. jute goods, woollen goods, metal products, products from various oilseeds and manufactures from hides and skins. Secondly, India consumes a greater proportion of foodstuffs in the total exports. Thirdly, raw and manufactured silk, cotton twist and yarn, indigo etc. suffer decline owing to the intensity of foreign competition, the rise of substitutes and the defective quality of the Indian goods. India's raw materials found no difficulty in gaining popularity abroad, but the increase in their exports was detrimental to Indian cotton, iron and steel and also chemical, and leather industries which had to depend solely upon the raw materials available internally.

If India's import trade after 1923—24 is compared with the position prevailing before

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1912—13, we find that India was still dependent on imports for large shipments of textile goods (though for smaller amounts), for machinery, iron and steel goods, chemicals, and other industrial necessities, for petrol and kerosene oil and for large imports of sugar. But it can be seen that the importance of manufactures in total imports was lessened and India was tending to import only those items which she could not produce herself.

India was one of the biggest of world markets before the war and, excepting U.S.A., Canada and a few industrial countries of Europe, no other country in the world excelled her in the value of imports consumed. In the post-war years China and Japan have emerged as bigger markets than India. One essential difference marks India's import trade from the imports of other countries. In the case of European countries, U.S.A. and Japan, the proportion of foodstuffs and raw materials to total imports was greater than that of the manufactures. But manufactures dominated Indian imports and so she has been one of the largest markets for manufactured goods. The most severe international commercial competition was therefore observed in India.

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However, the intensity of foreign competition to capture the Indian market was reduced by the following factors:—(1) The growth of Swadeshism (2) the low purchasing power of the Indian masses and deterioration in their standard of living (3) growth of Indian industries due to the discriminating protection (chiefly in cotton manufacture) and (4) the changes in the policy of Government's purchase of stores, which required that, as far as possible, Indian goods should be encouraged. Within these limitations foreign competition had to operate.

The following table showing the percentage share of certain important countries in Indian trade indicates the trend of the struggle for the Indian market.

### *Distribution of India's foreign trade.*

(Percentage)

	Prewar Average	War Average	Post-war Average	1929—30
Foreign -				
countries ...	47·7	42·9	47·7	57·5
British Empire	52·3	57·1	52·3	42·5
United -				
Kingdom ...	40·0	41·2	39·5	30·9
Japan ...	5·5	10·9	10·4	10·0

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		Prewar Average	War Average	Post-war Average	1929—30
U.S.A.	...	5·8	9·9	10·4	10·1
Germany	...	8·5	0·8	4·0	7·6
France	...	4·6	3·2	3·0	3·8
Belgium	...	3·9	0·4	2·9	3·4
Java	...	3·3	3·8	3·7	3·2

The continuous decline of the United Kingdom in Indian trade since 1870 was accelerated by the last Great War, and, in spite of a short advance during the period 1919-23, she lost importance in the post-war decade. The rise of Japan and the U.S.A. during the war was maintained even after the armistice. In 1928-29 Japan rose even above the U.S.A. After the war, Germany rose rapidly to prominence in the Indian market. From 0·8 % for the war period her share increased to 7·6 % in 1929-30. Belgium and France also recorded gradual increase, but they failed to achieve their pre-war share. The most important feature to be noted is the decline of the importance of U.K. and the British Empire, while the pre-war tendency towards the expansion of non-Empire trade at the expense of the Empire trade persisted. Part of the loss of U.K.'s share should be accounted for by the establishment of direct trade connections between India and foreign countries and by the

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abandonment of the practice of getting foreign goods through the medium of U.K.

The balance of trade position in the post-war period also brought out significant changes. India's adverse balance with the U.K. actually increased to considerable proportions. From 144 million rupees as the average for war years, the figure rose to 409 millions in 1928-29. India enjoyed an increasing favourable balance with countries other than U.K., Java and Austria. The deterioration of our trade balance with U.K. was due to her predominance in the imports of manufactures which were curtailed as Indian industries progressed and foreign competition intensified, and also because the chief exports of India, cotton and jute products, found markets only outside the U.K. The decline was also partly the result of the development of the system of triangular trade, which enabled India to increase her trade balances with foreign countries and thereby clear her obligations to U.K.

A careful observation of the internal economic conditions of India as well as the trend of her imports and exports during the period 1919—29 set against the pre-war and war time developments shows that, unless U.K. utilised her political power over India,

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the normal trade developments in the Indian market were sure to reduce her to an unimportant place. While British economic exploitation of India kept down the latter's purchasing power, it only intensified the rivalry of foreign countries against the U.K. It was clear that, if any event should occur to depress the purchasing power of India, the chances of Japan, U.S.A. and others would only multiply against the interests of U.K.'s imports in India. The only way to increase India's purchasing power was to industrialise her rapidly, but the economic interests of U.K. would not allow this to happen. This great clash of interests between U.K., foreigners and India developed in the post-war decade, and the world crisis of 1929 only fanned the glowing embers of the post-war conditions.

It remained for the world slump to force U.K. to adopt political weapons and make the best of India's lack of fiscal autonomy in order to further her own interests. The adoption of imperial preference and the grant of some concessions to Indian industrialisation were the necessary results of post-war. developments in Indian trade. Throughout the world political power largely ruled trade currents after 1920, and in the

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case of India it was not very different. While the presence of political power strengthened the external trade in the case of many countries, the absence of power weakened Indian economy. This feature was painted in bold relief during the period 1929 to 1939.

THE DEPRESSION PERIOD:—A study of the trends of India's exports and imports during the years of depression from 1929 is complicated by fundamental changes that have come over the theory and practice of international trade. The unprecedented fall in prices which started from November 1929 brought to the surface the inherent contradictions of national and international economies. As the years of the slump stepped in one by one, we find a change in the organisation of international trade, the emergence of new theories to justify the changes that have already come about, and new alignments of groups of nations to suit the requirements of the situation. The world forces which controlled, shaped, and directed the foreign trade currents of all countries including India during the slump years may be taken as recording (1) the end of free trade policy and (2) the increasing interference of the Governments in the economic activities of the peoples.

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The immediate result of the catastrophic fall in prices was the disequilibrium in the world trade system and the challenge to capitalistic production and policies. It became clear that, unless nations properly apportioned productive activity and divided international markets to the satisfaction of all, the chances of peaceful movement of goods and services, and the possibilities of political goodwill were meagre. But the rude shock which the depression gave to production and trade was received all over the world by increased recognition of aggressive nationalism as the policy. Fall in prices resulted in a severe contraction of world trade which gave birth to the erection of higher tariffs, import quotas, exchange restrictions, requisitions, priority systems, control of exports and imports, price fixation, governmental monopolies, etc. As elsewhere the sudden and drastic changes that occurred in different parts of the world were felt in India also. It is well to remember that the study of the international background to the trend of the foreign trade of India from 1929 is specially important because India, being politically subject to Great Britain, and economically at a lower stage of evolution compared to the European countries or America, played only a passive part and not an active one. One could

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almost say that India's destiny was tied up to the United Kingdom and the repercussions of the crisis in international trading relations on India were very largely determined by the economic foreign policy of Britain.

One trend of great moment in the sphere of international commerce has been the formation of new economic groups on a basis different from the grouping before the slump and for purposes which are different from the old aims of trade relations. International economy based on free trade has definitely given place to regional economic units. The world economic organisation was divided into groups; into 'the gold block' and 'the sterling block' on the basis of currency which largely regulated trade and also on the basis of political and geographical affinities like the British Empire, the Central European combination under the Nazi leadership, the French Empire, Pan-American block etc. Britain ventured to consolidate her Empire to ward off the evils of the depression. The attempt to make the Empire as far as possible self-sufficient led to (1) greater control of Indian foreign trade by Britain (2) increasing competition between the United Kingdom on the one side and U.S.A., Japan, Germany, Belgium etc. as competitors in

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the Indian and world markets (3) and the competing attempts both of U. K. and U.S.A. to solicit the cooperation of Canada. The repercussions of the Empire grouping were felt in India and by all the nations interested in India's exports and imports. India's economy was tightened in an imperial net after the Ottawa Agreement of 1932. Imperial Preference Agreements led to other agreements with Japan and Burma. The foreign trade of India came to be regulated by agreements modelled on the British bilateral pacts and suited mainly to the interests of the British Empire.

Now we shall study the broad features of Indian trade during the period 1929 to 1936 bearing in mind the complexities of international trade during this exceptional crisis. The following table gives the value of the merchandise trade of India from 1929 with a perspective of war and post-war levels:—

	(Rs. 000)		
	Imports	Exports	Total merchandise trade
1914—15 to 1918—19	1,59,25	2,25,83	3,85,08
1919—20 to 1923—24	2,67,05	3,06,38	5,73,43
1924—25 to 1928—29	2,51,02	3,53,51	6,04,53

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	Imports	Exports	Total merchandise trade
1928—29	2,63,40	3,39,15	6,02,55
1929—30	2,49,71	3,18,99	5,68,70
1930—31	1,73,06	2,26,50	3,99,56
1931—32	1,130,64	1,61,20	2,91,84
1932—33	1,35,01	1,36,07	2,71,08
1933—34	1,17,28	1,50,23	2,67,51
1934—35	1,34,59	1,55,50	2,90,09
1935—36	1,36,78	1,64,59	3,01,37

That the depression has done its worst is evident from the fall in the total value of merchandise from 605 lakhs for 1924—25 to 1928—29 to Rs. 271 lakhs for 1932—33. The decline has been sudden and continuous both in exports and in imports. The danger to Indian trade is further indicated by the greater fall of exports compared to the imports. This was of course due to the great contraction of our external markets and the disproportionate fall of the agricultural prices everywhere compared to the prices of manufactured goods.

The following table compiled on the basis of declared values per unit in 1927—28 shows which way the wind was blowing and measures the extent of calamity to Indian trade and prices.

# INDIAN TRADE

Year	Quantum of		Price level of		Indices of im-ports received for a given quantity of exports
	Exports	Imports	Exports	Imports	
1927—28	100	100	100	100	100·0
1928—29	106·1	105·2	97·5	96·4	101·1
1929—30	108·0	103·4	90·2	93·2	96·8
1930—31	96·6	82·5	71·5	80·0	89·4
1931—32	82·5	70·6	59·2	71·7	82·6
1932—33	74·9	81·4	55·3	65·2	84·8
1933—34	86·2	72·7	53·5	63·5	84·3
1934—35	87·8	84·1	54·1	63·0	85·9
1935—36	88·4	86·6	56·9	62·1	91·6

The quantum of exports declined from 108 in 1929-30 to 74·9 in 1932-33, but subsequently recorded a steady increase. The fall in the quantum of imports was worst in the year 1931-32 and it is only after 1933-34 that an upward trend was clearly visible. During the first three years after 1929 the fall in the quantum of imports has been greater than the fall in the exports. The position in 1935-36 was that the exports recorded a fall of 18 points, while imports declined by 19 points compared to the 1928-29 level. The all-round fall in prices and the disproportionate fall of the prices of agricultural products accompanied by a decline in the price-level of India's exports which was greater than that of the imports were responsible for

## GROWTH OF INDIA'S FOREIGN TRADE

the enormous reduction of India's purchasing power. Column (6) indicates how our capacity to purchase from abroad went down from 1929 to 1932, though after 1933-34 the barter terms of trade improved perceptibly. It is also to be noted that, in the case of both exports and imports, there was a greater fall in the price level than in the quantum. From 1933-34 both the quantum and the price level of exports and imports began to adjust themselves and come to an equable balance. This was largely due to the recovery in the agricultural prices.

The enormous shrinkage in merchandise balance is shown below :—

Excess of exports over imports. (in Rs. lakhs)

Pre-war Average	...	78,27
War	...	76,31
5 yrs. ending 1923-24	...	53,14
„ 1928-29	...	1,12,80
For the year 1928-29	...	84,65
„ 1929-30	...	77,13
„ 1930-31	...	60,82
„ 1931-32	...	34,18
„ 1932-33	...	3,05
„ 1933-34	...	34,41
„ 1934-35	...	23,42
„ 1935-36	...	5,11
„ 1936-37	...	51,19

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The adverse influence of the depression on India's balance of trade position is a matter of great significance to India because she is a debtor country with huge foreign obligations to discharge. But for the large exports of gold from India after 1932 the position would have been even more precarious.

Let us see how the depression affected the direction of India's foreign trade. The following table indicates the trend clearly.

Countries	1928-29	1930-31	1932-33	1934-35	1935-36
U.K.	21.4	23.8	28.0	31.6	31.5
Germany	9.6	6.4	6.5	6.5	5.9
Japan	10.2	10.6	10.3	16.1	13.4
U.S.A.	11.8	9.4	7.4	8.3	10.1
France	5.3	4.9	6.0	3.2	4.4
Belgium	4.0	3.4	3.0	2.6	3.4
Ceylon	4.2	5.0	5.0	4.5	4.5
Persia, Arabia	2.1	2.2	2.2	1.9	1.7
Italy	4.5	3.5	3.5	3.8	2.2
China	2.8	5.9	2.6	1.9	1.1
Central and S. Africa	3.3	2.3	2.8	2.6	2.0
Netherlands	2.6	3.4	3.0	1.9	2.3
Australia	2.2	2.0	2.9	1.9	1.8
St. Settlements	2.4	2.8	2.7	1.8	2.3

British Empire Market was not very promising except in the case of the United

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Kingdom. Excepting U.K., Japan and Ceylon, for all other countries, the 1935-36 share was lower than the 1928 level. From the point of view of value, British possessions' share in our exports dwindled from Rs. 45 crores in 1929-30 to 22 crores in 1933-34 and did not rise appreciably even in 1935-36. But the British Empire as a whole recorded an increase as a result of the Ottawa Trade Agreements. Preferential treatment directed Indian trade into Empire channels and there has been a marked increase of trade with U.K. from 1932-33. European markets were reduced from Rs. 84 crores in 1929-30 to Rs. 32 crores in 1932-33 and the subsequent recovery was very slight. India's difficulty in penetrating the European markets was due to exchange controls, tariffs, currency disorganisation, quotas, and bilateral pacts and to the measures taken by European countries against India's alignment in the Ottawa Imperial Customs Union. Our exports to U.S.A. also fell sharply from Rs. 37 crores in 1929-30 to 10 crores in 1932-33. India recovered only very slowly because her competitors had captured a large share of the American market after the Ottawa Pact.

The N.R.A. self-sufficiency programme and the currency difficulties of the U.S.A.

experienced in 1933-34 further explain why India's export figures stand only at 17 crores in 1935-36—20 crores less than the 1929-30 figures. In the case of Japan, while the share dwindled from Rs. 33 crores in 1929-30 to Rs. 14 crores in 1932-33, it recovered briskly from 1934-35 owing to the Indo-Japanese Trade Treaty. The intimate connection between and interdependence of the Indian and the Japanese trade were well indicated by the sudden rise of the export figures from Rs. 13 crores in 1933-34 to Rs. 25 crores in 1934-35.

From 1934-35 there was an upward trend towards recovery and by 1936 the world had emerged from the perils of stagnation. The devaluation of the gold currencies started a beneficial movement of the prices. The restriction schemes adopted by the producers of primary commodities added strength to the rising prices. The war-mongers of Europe gave an enormous fillip to the armaments production which stimulated the heavy industries and created favourable conditions for an all-round rise in prices. World economic recovery was first regional in character, but the economic prosperity of Europe had its beneficial influence on the rest of the world. Though the government

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regulation of trade currents everywhere stood against an easy international recovery, the reduction of tariff barriers by some leading countries and the devaluation of currencies made a good beginning for economic progress.

India played a passive role during the crisis. She remains an agricultural country exporting foodstuffs and raw materials. Her prosperity is intimately related to agricultural prices and the general economic recovery of foreign countries. For want of active national planning she had been one of the worst sufferers during the depression. After 1936-37 the agricultural prices improved favourably and her exports made some headway.

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## CHAPTER IV

### *Balance of Trade and Balance of Payments.*

**A**CCORDING to the theory of 'Balance of Trade' first fully enunciated by Mun in his 'England's Treasure by Foreign Trade,' the exports of a country must exceed its imports if foreign trade is to add to the national wealth. The aim of the Governments' commercial policy should be such as to result in an annual net balance of exports. This excess of exports over imports is generally termed 'favourable balance of trade.' The amount of favourable balance of trade is taken to indicate the extent of additional economic well-being achieved for the country. An 'unfavourable' balance of trade must, therefore, be stopped at all costs in the interests of the national economy. Governments must so regulate foreign trade as to discourage imports and encourage exports with a view to attracting bullion, specie and other precious metals from abroad.

*Balance of Trade*

## BALANCE OF TRADE AND BALANCE OF PAYMENTS

This theory of balance of trade is deeply rooted in British history. Till early in the seventeenth century the chief objective of English commercial policy was to accumulate the national stock of coin and bullion. Numerous regulations were evolved to constitute what was known as the 'bullionist' system; the commercial transaction of every individual trader in the country was controlled in order to prevent England importing more foreign goods than she exported to foreign countries. The powerful commercial interests protested against the government regulations, but they were accused of having drained the country's bullion. The East India Company had to face strong public disapproval since it exported bullion out of England. In order to pacify the public feeling the merchant classes developed the general balance of trade theory. They pointed out that the commercial policy should not seek to control individual transactions, but must try to regulate the transactions of the country as a whole. Mun admitted that a country which did not possess mines could accumulate coins and bullion only by manipulating an excess of exports over imports. He realised the necessity of Governments storing bullion for emergencies and war purposes, but he stated that trade with a foreign country should not be

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considered an evil if it did not result in an immediate and direct favourable balance of trade. If the trade with that country yielded an indirect re-export trade with some third country, it must be encouraged. The proper method of encouraging favourable trade was not to restrict the export of bullion, but to restrict the use of foreign articles and to encourage exports.

After the establishment of the Bank of England credit facilities increased considerably and governments utilised the tax system for securing the necessary funds. The importance of bullion and coins slowly decreased and yet the balance of trade theory persisted though in a new form. A favourable balance of trade was regarded as a political and a military necessity since monetary stock must be great in order to wage a long and expensive war. Later on, during the earlier decades of the 18th century a favourable balance of trade was demanded from a different viewpoint. It was believed that exports gave employment to national labour, whereas imports deprived labourers of their jobs. Based upon this idea the argument gathered force that, in order to increase employment, a favourable balance of trade must be constantly encouraged. Thus

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the balance of trade theory got mixed up with protectionist doctrines. Restriction on the export of raw materials and higher duties on the imports of foreign manufactures were justified. Many of the crude ideas of the advocates of the balance of trade theory were clarified by the great English economist, Adam Smith. He showed how treasure was utterly insufficient for a costly modern war. He demonstrated that a country's wealth depended not upon the monetary stock but upon the 'balance of annual produce and consumption.' In spite of Adam Smith the belief in the necessity for a favourable balance persisted and till the latter half of the 19th century Governments continued to interfere with the economic activities of the citizens in order to gain a favourable balance of merchandise trade.

With the growth of capital movements from one country to another the balance of trade theory had to undergo a new modification. The main objective of the mercantilists in emphasising a favourable balance was the importance of specie movements. Previously this specie movement was almost solely governed by the movements of merchandise, but, as modern commercial organisation developed, new items entered foreign trade and the specie

movement was greatly reduced. It was the balance of indebtedness which indicated the direction, volume and causes of specie movements. A computation of the balance of indebtedness, or the 'balance of payments,' as it is termed, must include not only merchandise exports and imports but also the exports and imports of bullion and specie, the annual payments of interests on capital exported to foreign countries or imported from foreign countries, as the case may be, and also remittances from and to the country due to a variety of reasons. The export or import of economic services has also to be included in a calculation of the balance of payments. These are called 'invisible' exports or invisible imports. They include, for example, transport services, shipping freights, payments for commercial and financial services, harbour and canal dues, postal, telegraph and telephone fees, services connected with the tourist traffic etc. The importance of capital movements and the 'invisible' items have greatly increased in modern days. Therefore, in order to find out the net result of a country's connection with the outside world, we have to include in our calculation current and past transactions covering immediate and deferred liabilities to pay or claims to receive payment from abroad. The net balance of payments, which is a

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small fraction of the total volume of trade in commodities, services and capital transactions, is taken to indicate the state of a country's indebtedness.

It may be stated that, since the Industrial Revolution, the manufacturing countries have emerged as capital exporting countries, whereas agricultural countries which have not yet developed their productive powers have tended to be debtor countries. An agricultural country usually passes through six stages with regard to the balance of commodity trade. The first period is one of 'immature borrowing'. At this stage a country, being at a low level of economic development, tends to import more than it can export. Later on, the second stage of 'mature borrowing' sets in when, though the imports of foreign capital go on, the annual interest payments for the capital borrowed previously exceed the amount of capital imported during the year. During this period the exports are greater than the imports. Owing to the imports of capital the manufacturing powers of the countries are developed and so the third stage arrives when the country begins to repay the capital imported from abroad. During this stage of 'repayment' there is a great excess of exports over imports and annually a part of the capital imports

is also repaid. As time passes on, the country becomes a creditor capable of granting loans to undeveloped foreign countries. During the fifth stage, this country receives interests on loans previously granted to an amount which is greater than the new loans granted to foreign countries during the year. A moderate import surplus is the characteristic feature of this period. Capital is withdrawn as foreign countries are developed to a high stage of production. The interest payment due from foreign countries results in an annual import surplus. The significance of the balance of trade of a country, historically considered, lies in the fact that it indicates the stage of economic evolution attained by the country in question.

*Economic Progress of a Country*

It is, therefore to be remembered that the balance of payments of a country during a particular year, or a series of balances covering several years, cannot by itself truly indicate whether the country has economically progressed or deteriorated. National economic progress must be measured with reference to the national production and consumption and the state of balance of payments must be interpreted with reference to internal production and consumption of goods and services. No doubt if a country has to suffer a series

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of adverse balances of payments, it may have to export bullion and treasure and since gold forms the basis of credit the draining away of gold will involve a drastic contraction of credit with all its evil effects on production and consumption. But a cautious banking system and currency policy would protect a country against the undesirable effects of gold movements. International economic cooperation particularly of the central banks would, it is believed, go a long way in rectifying the evils of balance of payments.

### *India's balance of accounts analysed*

A large excess of exports over imports has for a long time been the characteristic feature of India's foreign trade. This excess is necessitated because India has to pay the 'home charges' which include interest payments for the loans received from the United Kingdom, the furlough pay and the pensions of British officers who served in India, the expenditure on the army which the United Kingdom incurs for the defence of this country, the purchase of stores from the United Kingdom on behalf of the Government of India etc. Besides these 'home charges' certain invisible items also appear on the debit side of India's dealings with foreign countries. These include

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*don't wish*  
the profits of foreign shipping, banking and insurance companies. The remittances sent to Indian students studying abroad, the remittances sent to their own countries by the foreign merchants, professional men and the British officers in India have also to be included. The import of treasure is also an important item on the debit side. On the credit side of India's balance of payments we have, besides exports of merchandise and treasure, remittances by foreigners to their missionary institutions in India and the expenditure of foreign tourists in this country.

*due to B. rule.*  
**DRAIN THEORY:**—National opinion in India has condemned the Indo-British trade relations as containing elements of unfair exploitation of Indian resources. It has been asserted that there has been, ever since the establishment of the British rule, a great drain of Indian wealth which has enriched the ruling country. The phenomenon of habitual excess of exports over imports is responsible for the 'drain' theory which states that India is forced to pay a tribute to England on account of her political subordination. Though excess of exports over imports during a large number of years may indicate that India has been passing through the stages of 'immature' and 'mature' borrow-

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ing, the case with India has to be scrutinised with reference to her constitutional position. It is true that no tribute is paid in the form of annual payments. But, if one analyses the various items in the balance of payments, it is not difficult to see that the political hold of England over India has resulted in certain payments which would not have been possible if India had been free. It cannot be contended that India does not receive any thing in return for her exports. The drain theory tries only to demonstrate that there is no adequate return for India's exports and that this is due to the British administration. The 'home charges' covers interest on loans received for the construction of Indian railways and other general amenities. Though no one questions the economic value of railways, the view is generally held that the loans bear exorbitant interests and are not incurred mainly for the promotion of Indian interests. An examination of the growth of Indian public debt shows that the British Government have not been very fair towards India. Again, if the payments for the civil and military services are fully analysed, one finds the lack of quick progress. Indian defence is an imperial interest besides being the interest of India, but India has to bear the whole burden of the responsibility of paying for these defences. When Indians have

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been barred from certain key positions and when fat salaries go to foreigners, the feeling that payments for defences include forced payments to the ruling race gets widespread. So long as Indians are not allowed to share fully and adequately the responsibility of defending their country by manning the army, the navy, and the air force, the loss of self-respect indicates that the payments have been imposed by political considerations and not by economic necessity. Besides, the salaries of the government officials are inordinately high and the demand for replacing foreigners by Indians has not been readily met. So long as the Government of India discourage the growth of national industries, shipping enterprises and the growth of national banks, the opinion would continue that the profits of foreign banking, shipping and insurance companies only measure the drain of Indian wealth. India has been made powerless under the new Constitution Act to discriminate against foreign interests and to encourage national interests. If these considerations are borne in mind, one can understand how the drain theory became popular and why it still continues to be widely believed by the nationally-minded Indian. Writers who chose to consider the habitual excess of exports over imports in India as nothing dangerous or unnatural

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should remember the economic facts in this country. Indian trade, both internal and external, would be very different if India were to enjoy self-government with full fiscal autonomy. India's balance of payments does indicate a state of affairs which can be remedied only by the grant of full sovereign powers to the Indian masses.

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## CHAPTER V

### *The Gain from Foreign Trade.*

THE mere existence of exchange of goods between two countries implies some measure of mutual advantage. To understand the nature and significance of foreign trade one must study the forces which impel the exchange of goods and services between one place and another. The advantages accruing from external commercial relations may not be the same for any two countries. The gain from international trade may at one time be greater than it was at some other time. In other words, the gain is essentially the product of changing forces working both at home and abroad. Again, the importance of foreign trade varies with the economic development of a country, its commercial organisations and the policy adopted by the Government of that country. For instance, the significance given to international trade during the Free Trade Era has completely changed during the recent decades of rigorous

governmental intervention. The gain from trade also depends upon the changes that come over the mechanism of international exchange. In the complex world of to-day, this mechanism comprises the price structures in different places, the exchange rates of different countries and the triangular method of balancing the exports and imports of each country. The existence of an international monetary standard, *viz.* gold, has also been a cardinal structure in the international exchange of goods and services. This mechanism which is very complex, highly delicate, and extremely sensitive, is based upon the full and free recognition of the necessity of free trade. Unless all important nations cooperate, this mechanism causes a shrinkage of trade, starts a vicious circle of decline and depression and thus reduces the advantages of foreign trade. For a full understanding of the gains from foreign trade a thorough study of the growth and working of this mechanism would be essential.

GAINS ACCORDING TO THE STRICT CLASSICAL THEORY OF FOREIGN TRADE:—Now an examination of this mechanism cannot be separated from a study of the reasons for the exchange of goods. The pure theory of international trade, which goes to the very

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mainsprings of commerce, seeks to answer the following three questions.—(1) Why does an exchange of goods take place between countries? (2) Why does a country export only particular commodities and import certain others? In other words, which commodities or goods will feature in a country's exports and imports? (3) What is the nature of the advantages derived by the different countries from foreign trade?

There are different theories put forward to answer these questions, but the theory of comparative costs enunciated by the classical school of English economists is the most important. This theory may be stated thus:—“If trade is left free, each country in the long run tends to specialise in the production of and to export those commodities in whose production it enjoys a comparative advantage in terms of real costs, and to obtain by importation those commodities which would be produced at home only at a comparative disadvantage in terms of real costs, and that such specialisation is to the mutual advantage of the countries participating in it.” (Jacob Viner). As Mr. Barret Whale puts it, “International trade depends on differences in the relative costs of producing the various commodities in different countries, commodities

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moving from countries in which, on the basis of home costs, they would be comparatively low in the scale of values to countries in which on the same basis they would be comparatively high in the scale of values."

Let us take an illustration.

In country A

1 day's labour produces	100 lbs of cotton
„ 1 day's „	150 „ steel

In country B

1 day's „	500 „ cotton
„ 1 day's „	50 „ steel

In the above illustration, country A is more effective in producing steel than country B, whereas country B has the greater relative advantage in the production of cotton. The theory states that, if trade is established between the two countries A and B, A will tend to specialise in the production of steel and B in cotton so that the exchange would be mutually advantageous.

According to the theory of comparative costs, if one country is absolutely inferior to another country with regard to the production of one commodity and absolutely superior with regard to the production of another

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commodity, the comparative costs of production of the commodities in one country are different from these of another, and hence trade between them in the respective commodities in which they have superior advantages will be mutually profitable. Secondly, if a country is superior in the production of the two commodities, it will tend to produce that commodity in which its superiority is more pronounced and will tend to import the other commodity from abroad. Thirdly, if one country is inferior to another in each of the two commodities, it will tend to produce that commodity in which its disadvantages are less and will import the other.

This theory points out therefore that, if trade is entirely free and the agents of production completely mobile, the gain from foreign trade arises out of barter which is economically advantageous to both parties and also from the fact that commerce between two countries encourages specialisation in production and extension in territorial division of labour. Since this theory assumes perfect free trade conditions and ignores the working of monetary factors, it is not quite satisfactory in explaining the complicated nature of the 20th century international commerce. But it explains the essential nature of international

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trade devoid of all the complications created by divergent political ambitions, different economic policies, different currency areas etc. Hindrances to foreign trade have now greatly increased making it difficult for the law of comparative costs to operate. But it may be admitted the cost of production normally tends to operate as a limiting force on foreign trade.

Exchange of goods between countries is bound to be mutually beneficial because of the diversities on the natural resources and the existence of the special industrial aptitudes of different peoples. The general gain from foreign trade consists in obtaining from other countries those articles which cannot be produced at home, and in the cheapening of articles which could be produced at home only at a greater cost. Historically considered, foreign trade served to diffuse the industrial forces over ever-widening areas and to extend the international division of labour in the economic sphere.

GAIN DEPENDS ON THE ECONOMY OF THE COUNTRY :—The true significance of foreign trade to any nation and its importance in the national economy can be studied only with reference to the different types of

economies evolved in different countries. The gain from external commerce, the perils of dependence on the outside world, the character and trends of exports and imports can be well understood only with reference to the different types of economies evolved in the trading countries concerned. International trade is but the outward expression of the stage of economic development attained by the countries. With fundamental changes in the economies of the different nations, the volume, and character of commerce are also bound to change. The industrial development of a country depends upon geographical factors, natural conditions, availability of the factors of production, historical tradition, population etc. Taking into account all these details, the industrial structures of different countries may be classified from the following standpoints:- viz. (1) whether the country possesses only primary industries or secondary industries also; (2) whether it has specialised only in one product or has numerous industries, (3) whether its industries are producing goods only or are producing services also. We may broadly divide the countries into those belonging to a 'simple economy' and into those belonging to a 'complex economy.' Those countries which depend mostly upon agriculture, which do not possess highly specialised industries,

and which specialise in the production of only a few industries and not in the production of economic services required by the industries and commerce may be said to approximate to the 'simple economy' type. But those countries which show a predominance of manufacturing industries, which present features of intensive production, which possess diversified industrial structures engaged in the production of numerous articles, and which also produce the different services of the economic superstructure may be taken to represent the 'complex economy'. It is the predominance of manufactures and economic services which distinguish the 'complex' from the 'simple' economy. The degree of industrialisation marks the economic advancement of a country. It is to be remembered that, generally speaking, the more advanced country *i.e.* a country conforming to complex economy type, is able to reap greater benefits from foreign trade than the country which is at a lower stage of economic development, that is, the country which belongs to the 'simple economy' type.

*moving force*

THE NATURE OF FOREIGN TRADE IS NOT STATIC BUT DYNAMIC:—The economy of a country is not static but dynamic. Erstwhile agricultural countries may speed up their

industrialisation and compete with 'advanced' nations in the international markets. The leading industrial countries may, owing to war and other unforeseen forces, lose their industrial and commercial predominance. Foreign trade is the link which connects several countries at different levels of industrial advancement. Countries at a lower stage of economic advancement tend to absorb the features of the more advanced. In other words, the progress of industrialisation tends to be transmitted from the older to the younger countries. This tendency is well marked in the currents of foreign trade of every country. These currents, comprising exports and imports, show the links between one country and the rest, and also indicate that country's gain from the world trade, its sacrifice due to external dependence, and also the trends of the inter-relation of the national economy with the economics of other countries. In the exchange between an industrial country and an agricultural country the former seems to gain more economic and non-economic advantages and, therefore, the governments of the agricultural countries have even tried to evolve a commercial policy to hasten internal industrial growth and to regulate the precarious dependence on advanced nations. Thus the gain from foreign

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trade is never allowed to be free and unrestricted. Non-economic aims have powerfully determined the nature and extent of the advantages derived from the external commerce of modern countries.

**BENEFITS FROM FOREIGN TRADE TO INDUSTRIAL COUNTRIES:**—When different economies are connected by commerce, the gain is not the same for the participants. From foreign trade an industrial country gains extensive markets abroad so that it may produce goods on a large scale for low costs. External commerce offers ample opportunities for specialisation in production, satisfactory utilisation of the resources of the country and more efficient employment of its labour force. Since foodstuffs and raw materials can be imported in required quantities for its growing population, it need not fear the working of the Malthusian law of population. Inventions thrive hand in hand with the growth of industries and keen competition for the capture of foreign markets. The productive capacity of an industrial nation is more elastic than that of an agricultural country, and it is not an accident that all the leading creditor nations of the world are industrially advanced, while the debtors belong to the agricultural economies. Accumulation of business

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capital and technological improvements are greatly stimulated by the currents of foreign trade. Though they depend on foreign countries for foodstuffs and raw materials, they are strong enough to safeguard their regular supply.

**GAINS OF AGRICULTURAL COUNTRIES:—**  
The gains of agricultural countries are essentially different. They export food grains and raw materials and import manufactures. Through foreign trade they receive the advantages of the industrial arts, improved machinery and entrepreneurial skill from the more advanced nations. They borrow capital for their internal development, become debtors for some time and face an adverse balance of merchandise trade every year till they develop indigenous capital. In order to ensure the valuable imports which raise the standard of living of the people, these countries have to depend on the regular exports of their agricultural produce. Commercial connection with advanced countries enables them to develop their powers of production and facilitate internal transportation, mining, banking and shipping schemes. By coming within the orbit of world trade, agricultural countries are enabled to become, however slowly, richer and more prosperous than they could be

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otherwise. They begin to join the race for inventions and technological improvements. But since the industrially older nations are also progressing from old industries to new, from old methods to novel ones, the international economic linking through foreign trade generally works for universal betterment, unless, of course, political or other factors frustrate the attempts of particular nations to reap the full fruits of modern commerce.

✓ MERE VOLUME OF TRADE DENOTES NOTHING:—It should be noted that a mere calculation of the *per capita* foreign trade does not give us an exact idea regarding the importance of external trade. Since the industrially advanced countries generally enjoy a large foreign trade, it is sometimes erroneously believed that the volume of external commerce is a reliable measure of a country's economic prosperity. A reduction of imports owing to the development of indigenous industries or the reduction in the exports of raw materials and foodstuffs diverted for internal consumption may lead to a decrease in the volume and value of foreign trade, but the prosperity of the nation is not adversely affected thereby.

THE SIGNIFICANCE OF FOREIGN TRADE MUST BE JUDGED ONLY IN INDIVIDUAL CASES:—Small countries with dense populations are obliged to depend mostly upon foreign trade for the increase or maintenance of their standard of living. Similarly, a country with very poor agricultural resources may have to look to foreign trade for the safeguarding of the national well-being. That country may have to develop manufactures and specialise in the production of services needed for modern economic organisations. On the other hand, a vast country which is thinly populated and which possesses adequate agricultural resources to feed her growing industries need not attach so much importance to external trade. Countries which are impoverished by the imperialistic exploitation of ruling races cannot accomplish the full development of their resources and tend to restrict the progress of external trade. Mr. Litman observes thus: "Conclusions as to what a large *per capita* trade means for a country can be reached only after a careful investigation of all the factors involved in each particular case. Larger *per capita* exports and imports may denote that a nation is prosperous, that it enjoys all the comforts and luxuries which accrue from a participation in the international exchange of commodities, or

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it may signify that the people live in an unproductive territory and are obliged to give services and to export whatever they are able to wrest from the soil in order to import bare necessities, articles of simple food and clothing, fuel and building materials, sometimes even drinking water, as in the case of Aden, in South Arabia."

EMERGENCE OF WORLD ECONOMY AND PERILS OF FOREIGN TRADE:—Foreign trade is not an unmixed good. Since the emergence of the Industrial Revolution the process of knitting different countries into mutual dependence and common density has begun. The Industrial Revolution spread from England to Europe and from Europe to the rest of the world. As it spread its influence, it released the productive forces of different regions and trade exchanged unlike products in a complementary manner. As production increased and as time and distance were annihilated, territorial division of labour quickly widened beyond national frontiers. The influence of world trade grew beyond the narrow limitations of national economies. Economic activities grew in scope and complexity and international interdependence developed in an intimate fashion. National economies gradually lost their self-sufficient character and world markets, world

*Industrial Revolution*  
*its basis*

prices, world currency, and international commercial rivalry became so real that politicians in every self-governing country began to evolve a policy of safeguarding national interests against the ever-growing economic dependence on outside factors. As Mr. Donaldson points out in his *International Economic Relations*, "National economies are like the unity of a complex machine, each partly completing its own function but with cogwheels steadily intermeshing in the increasingly coordinated machinery of world economy." The growth of a world market for numerous articles is a measure of the intensity of the interdependence. Every important country produces several articles for foreign consumption, and several countries produce numerous articles for the consumption of a single country. In this organisation of supply and demand of commodities and services, the participating countries play different roles of varying importance. Every country trades in numerous articles internally and several of its commodities enter the world market. Thus there arise two different entities to be reckoned with by any single government *viz.* national prices and international prices. The interaction between these two prices has become tremendously important, and the fluctuations of one group intimately disturb the other. This

unstable combination of conflicting national forces increased by the growth of foreign trade often results in unexpected disturbance. Therefore national governments seek to regulate the national prices and to control the dependence on the world economy. Commerce is trying to unite the nations of the world in one way, but politics—which is still national and not universal—pulls the other way through restrictionist methods. International trade has become triangular or multiangular, the balance of payments of individual countries being adjusted by a complicated and many-sided net-work of financial arrangements. More and more commodities enter the arena of world commerce. The world price level, the world commercial organisation, and the world-wide division of labour are working for the unification of the world in one economic orbit. But the local forces and sectional interests try to maximise the economic prosperity often at the expense of other countries. These sectional forces go with the current of international trade as long as it suits them, but try to segregate national economy from the world economy if necessary. Thus the keen rivalry to increase the gain from foreign trade results in selfish policies, economic warfare and recurring depressions. In other words, world capitalism has introduced elements of

instability and insecurity. Hence we witness, especially since 1920, a feverish attempt at the ideal of self-sufficiency followed by almost all the sovereign states of the world. This policy of self-sufficiency is reflected in tariff restrictions, currency manipulations, quotas etc. The result is that international trade has dwindled, the standard of living of different countries has been reduced and currencies have become intolerably unstable. This economic disequilibrium has been the basis on which the pernicious doctrines of Nazism and Fascism grew. The result is that we are facing today the most devastating war in history. The gain from foreign trade can be lasting, real and beneficial only if we learn the great lesson of modern international interdependence. In the words of Ramsay Muir "Our troubles are not due to the breakdown of capitalism or any other *ism*. They are due to the failure of the world's governments to recognise and to act upon the facts of interdependence; and the ruling oligarchy in Russia is as guilty of this failure of vision as the other governments; since it has persuaded itself that it can create an insulated society in the modern world. Like science commerce has progressed too rapidly; man's institutions, education and culture seem to lag behind. Any single country can enjoy the gain from trade only if mankind as a

## THE GAIN FROM FOREIGN TRADE

whole realised the necessity and profitability of peace and abandon force, exploitation and irrational ambitions."

### *India and her gain from foreign trade*

India is a vast country possessing mineral and agricultural resources which can be developed to satisfy the requirements of most of the manufactures which she is importing. She has a dense population steeped in poverty. She need not import foodstuffs from abroad and her standard of living is very low. Hence the *per capita* amount of foreign trade remains very small when compared to that of foreign countries. It is true that since 1858 India's foreign trade has been growing by leaps and bounds. The rapid increase of external commerce was the most notable feature of the economic transition experienced by this country during the last century. Whereas in ancient days foreign trade was negligible when compared to internal trade, after the advent of the British and the growth of railways and other transport facilities, a large number of articles began to feature in Indian trade. It cannot be doubted that the development of foreign trade has phenomenally developed our agriculture. The great increase in the production of our cotton, jute, tea and

oilseeds is directly the result of expanding foreign markets for those commodities. Under the influence of foreign trade the area under food crops has been rapidly widening and more and more of waste lands has been brought under cultivation. The prosperity of our jute, shellac, groundnut, wheat and coffee is to a considerable extent due to the fillip received by external trade. On the side of imports we have to concede that most of the amenities enjoyed by India today would not have been possible but for the commercial contact with industrialised Europe. Our railways, factories, buildings, machinery, hardware, toilet, paper, medicinal goods, sugar, and a thousand other articles needed for modern life are imported from abroad. In short, we have received the benefits of western industrialisation only through the gateway of foreign trade.

But when the advantages of foreign trade are balanced against the disadvantages, we have no hesitation in saying that, on the whole, foreign trade has not served the real interests of the Indian nation. The reason is not far to seek. The imperialistic domination of England over India gives a special explanation to the trends and the real nature of India's foreign trade. Throughout the nine-

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teenth century India witnessed a rapid decay of her world famous handicrafts. During the terrible years of the famine, foodstuffs and raw materials continued to be exported to foreign countries. The rapid inrush of British manufactures spelt ruin to numerous indigenous industries. While the people were being impoverished by a foreign administration, foreign trade figures mounted up painting a false colour of prosperity. The real gain from foreign trade does not depend on the volume of the commodities exchanged. One must also study the nature of the articles exchanged. The free trade policy of England was imposed upon India to suit the convenience of English industrial interests and therefore India has had to remain an agricultural country exporting raw materials which she might have herself utilised and importing manufactures which she might have made, and lowering in the bargain. Undoubtedly the gain from foreign trade would have been immensely greater had India possessed her own government keeping Indian prosperity alone in mind. In fact, if one studies both the import and the export sides of Indian foreign trade carefully, it is not difficult to see that it was the British who reaped the lion's share of benefits from both India's exports and imports. Since important plantations like tea

and coffee were owned by the British, a large share of industrial and commercial profits arising out of the produce directly swelled the pockets of the British. The jute industry has been, till recently, completely dominated by them and so the large exports of jute really represented big profits for the British operating from India. Since essential economic services like shipping, banking, broking, insurance, etc. were, till recently, controlled by the British, they stood to gain enormously on the side of invisible trade. Besides, the irresponsible administration of the government resulted in huge public debts which made it necessary for India to find an export surplus of merchandise to pay off the obligations. The penetration of British capital in India has been another important factor which reduced the gain from foreign trade. The import of British capital into India, instead of developing Indian industries, really acted as a heavy burden on the national economy. Foreign companies owned and managed by foreigners have come to be deeply rooted in this country resulting in an exploitation of the country's resources for foreigners' benefit. A national government would have made the necessary legislation to reserve coastal shipping to the nationals and would have developed a protective tariff and discriminated in favour of national enterprises

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in numerous ways. But the British rule in India has resulted only in a retardation of economic development. Our foreign trade does not run on national lines. We continue to feed foreign industries with our agricultural and mineral raw materials. Numerous big industries of foreign countries, particularly those of England, owe their prosperity to Indian exports. India has remained a dumping ground for foreign manufactures. Undue development of foreign trade has resulted in military and industrial weakness and a precarious dependence on agriculture.

CONCLUSION:—Though India has gained from the development of her foreign trade since the establishment of the British rule, the negligence of national industries has drastically curtailed the full benefits which India would have reaped, had she enjoyed full self-government. The crying need of the hour is a well-considered economic plan for India which would give adequate scope for the rapid rise of key industries in India and aim at the increase of the purchasing power of the masses in this country.

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## CHAPTER VI

### *New Method of Trade Control*

TRADE has ever been a fruitful field of government intervention. Ancient and mediæval commerce had to suffer almost insuperable obstacles created by tribal regulations and exactions. Since the beginning of the modern era control of external trade has become an important part of the economic policy of governments. The emergence of modern states gave rise to national economic policies intended to enrich the nation as a whole through an all-round regulation of the people's economic activities. Particularly in European countries, the lure for Eastern trade and the competition for tropical goods strengthened the necessity for state intervention. During the era of mercantilism, European statesmen attempted to theorise and legislate for the whole nation and not for a part thereof. They strove to preserve and increase the stock of precious metals in their own countries. They prohibited the export of specie, debased coins, and even interfered with exchange transactions.

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They attempted to strike a 'balance of bargains' between the trading countries. Individual transactions between the traders of the nation and the merchants of a foreign country were regulated in every detail with a view to increasing the quantity of precious metals circulating in the country. Later on, certain writers came forward advocating a change in the mercantilist policy. They pointed out that individual transactions in foreign trade were not important but that the aggregate transactions alone were to be regulated and controlled. They pointed out that the chief requirement was a 'favourable balance of trade' or, in other words, an exchange of goods with foreign countries which would be favourable for the imports of specie and bullion. Legislation was to be directed towards maintaining an excess of merchandise exports over imports which would result in a favourable balance of trade.

**COLONIAL TRADE POLICY:**—Mercantilism had other important features as well. Restriction of imports, active encouragement of exports and special aids to manufactures and shipping were the cardinal principles which governed the state policy. The mercantilists held that international trade was a kind of warfare in which the handicaps and distress of

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*Colonies to mother country*

the rival were points in favour of national expansion. The extensive empires possessed by the European states were to be utilised for enriching the mother country at the expense of the colonial territories so that the mother country might fare well in the strenuous competition with foreign nations. Colonies were not to be allowed to be exploited by foreigners; they were to be developed as profitable markets for the manufactures of the mother country, as sources of raw materials and foodstuffs and as places of emigration for its growing population. Colonies were not to be encouraged in starting manufacturing industries which might compete with the products of the mother country. The mercantilist policy in those European countries which possessed colonies in the tropics mixed up with the colonial and gave rise to Imperial economic policy.

*Change*

**FREE TRADE POLICY:—**During the 19th century mercantilist doctrines came to be slowly discarded. The movement of reaction against the antiquated mercantilist regulations had its expression in the Free Trade system enunciated in England. Just like the physiocrats of France, the Free Traders argued for non-intervention of the Government in the economic activities of the people. Though mercantilism served the purpose of centralising

power in the nation states, it had outlived its utility after the 18th century. The necessity arose for wiping out the harassing restrictions and prohibitions on trade and industries. After the initial decades of the 19th century free trade policy became prevalent. Import restrictions were abolished and customs duties were greatly reduced. Free trade held sway in England after 1842 and it was widely adopted in Europe but only till 1880.

About the middle of the 19th century a movement was set on foot in Germany against the free trade system. A school of economic writers—called the Historical School as different from the Classical School represented by the English economists like Adam Smith, Ricardo, and others—contended that the economic policy of a country should be shaped with reference to its historical growth. *Laissez faire* policy would not suit all countries and all times. International free trade, they contended, would injure the less advanced nations and favour the more advanced. They pleaded for protection, that is, a policy of actively encouraging home industries by raising the import duties and by granting aids like bounties and subsidies to domestic manufactures as well as agriculture. The atmosphere was favourable to the adoption of protectionist doctrines because the wars of

*protection*

the 19th century increased the financial stress of the governments and fanned the sentiment of nationalism. International commercial rivalry grew keen both in agricultural products and in manufactured goods. National feeling was so much roused that European governments began to adopt protective measures to develop home industries at the expense of the foreign.

After the Great War of 1914-18 international trade was so much dislocated that every country began to think in terms of its own prosperity without any reference to world economic recovery. The general hurried drive towards self-sufficiency has given rise to new arguments for protection and administrative interference in industries and trade.

**OLD METHODS OF TRADE CONTROL:—**  
Administrative measures interfering with the normal flow of international trade have taken different forms. Governments could wield their currency policies in such a way as to secure temporary advantages to national industries and commerce. They could, for instance, inflate the currency to afford a temporary fillip to their exports and curtail their imports. Monetary policies and the bank rates of the Central Banks have often been adjusted with a view to artificially promoting

home industries and trade. Granting of loans to foreign undeveloped countries, control of overseas investments, the general taxation policy affecting foreigners and prohibition of the exports or imports of certain chosen commodities—these formed powerful instruments for regulating foreign trade in the best interests of the nation. Shipping services, banking facilities, railway rates, etc. have also been manipulated to afford extra facilities for the nationals in their economic fight against foreign competition. Besides bounties, subsidies and rebates, there have been instances of active help given by government for the dumping of goods abroad. Artificial help in one nation leads to retaliatory or counter measures from others, and thus the cycle of government interference has grown to great proportions since 1920.

It should be noted also that the external trade of a country has been governed not only by the state policies but also by private organisations like the chambers of commerce, expert associations, cartels and rings. The industrialists interested in the production of a particular article have formed powerful organisations regulating its production, prices and distribution. The merchants or producers of different countries concerned with the progress of a

particular commodity have also joined hands in the zoning of markets, in determining quotas, in fixing prices, and controlling the sales of that product throughout the world. The decisions of such associations, national as well as international, have had a powerful influence in regulating the trade in several important wares of world commerce. Often individual governments have been unable to adopt an economic policy against the agreements of private producers.

## *Trade Depression and new method of Trade Control*

The Trade Depression which developed in 1929 has caused many important changes in the economic and political frame-work of the world. The steep fall in prices which characterised the slump dislocated production and exchange so drastically that trade between different countries felt a rude shock which subsequently led to a collapse. While trade was fast dwindling, governments especially in Europe, interfered with the working of national and international economies and thus added force to the disintegration of world commerce. Planning became the order of the day and the state did not hesitate to control every aspect of national economic activity.

The last vestiges of free trade and *laissez-faire* were abandoned in favour of complete control by the Government. Nationalism was the driving force and self-sufficiency was the immediate objective. With their differing and conflicting policies and programmes of national reconstruction Governments have altered the principles as well as the practices of trade along new lines best suited to them during the exigencies of the crisis. The failure of the World Economic Conference of 1933 clearly showed that hopes of international cooperation for trade recovery were frustrated. The states everywhere came forward to regiment internal and external trades without thinking how their planning would affect the world as a whole. The dominant note of governments' foreign trade policy has come to be what is generally termed as 'Bilateralism.' In other words, the foreign trade of a country under the bilateral policy has been governed by conditions and stipulations specified in an exclusive reciprocal trade treaty between two contracting countries. Imports and exports are made to equalise with every country with which trade is carried on. Trade has been directed along treaty channels. It has been placed at the mercy of national governments, and individual merchants who developed international trade along the path of

free trade, have now to engage in foreign trade only through the ægis of the government.

In order to understand the full implications of this bilateral method of trade control, the chief characteristics of world trade before the Depression must be briefly explained.

The chief feature of international trade, based upon the exchange of goods and services on the principle of comparative advantage, was the triangularity of the payments for exports and imports. The economies of different countries were linked together for the exchange of goods and services involving the maximum utilisation of the world's resources by certain common arrangements which symbolised the achievements of the commercial era before 1914. Generally, a country has to export to a value equivalent to its imports. But if imports and exports are balanced between pairs of countries, the possibility of expanding trade with a country which is not in a position to export to an equivalent value is scored out. If two countries are engaged in mutual trade, a continuous favourable balance of trade for one country will not be long tolerated. But if country A holds a favourable balance of trade with B, and if B has a like balance with C

and if C has a similar relation to D, D may be made to pay A, while a greater volume of merchandise trade may be thus organised. On the other hand, if trade is made to balance between pairs of countries without reference to their relation with others, it is less conducive to the growth of international commerce than the organisation which tries to balance the trade of a country, not in relation to every single country but with all foreign countries taken together. The world trade was in reality organised on this pattern usually called "triangularity" or "multiangularity" in commerce.

This 'triangular trade' can thrive only if the commercial policies of the several countries concerned agree to allow the law of comparative advantage to operate and refrain from interfering into the volume, value or manner of foreign trade. The fruits of triangular trade can be enjoyed only if no discriminating policy is followed in external trade policies. In fact before 1919-30 almost all countries guaranteed this absence of discrimination under the 'unconditional most-favoured nation clause' incorporated in their commercial treaties. This M. F. N. clause promised 'to refrain from any discrimination and to apply to all products of the other

country every advantage that may be granted to the like product of any other country.' This policy facilitated the growth of world trade, allowed the principle of division of labour to operate and maximised the advantages of foreign trade.

**GOLD STANDARD AND EXCHANGE RATES:**—Apart from this M.F.N. policy, there was another factor which made exchange between countries possible and easy, that is, the gold standard. National currencies bore a definite relation to gold and hence currencies were inter-convertible with reference to gold. The exchange rates fluctuated only between the 'gold points' and, if the rates crossed the borders set by these points, shipments of bullion used to set the rates all right. Exchange rates sometimes fluctuated rapidly and widely, but they were at no time completely dislocated beyond repair. On the whole, during peace time the international monetary system worked well enough not to collapse under the weight of the strain. The free flow of gold, and non-interference of national governments in trade currents made huge international lending possible. Capital exports and imports satisfied the growing economic needs of undeveloped or partially developed countries. For some countries expansion of

## NEW METHOD OF TRADE CONTROL

foreign markets was made possible by overseas investments ; for several others heavy imports could be allowed only because they could raise loans abroad. The growing volume of international trade was thus based predominantly upon free international capital movements.

POST-WAR BACKGROUND FOR BILATERALISM :—All these features gradually disappeared after 1920. The great war dealt a heavy blow at free trade and tariff walls mounted up speedily. The severe monetary chaos and currency dislocation of the 1920-25 period added impediments to commerce and fanned the flame of narrow nationalism. The economic collapse which resulted from 1929 necessitated a comprehensive planning of national economic activities. Foreign trade was subordinated to the interests of internal trade. Politics dominated trade. Against such a background, the abandonment of the gold standard by Great Britain in 1931 introduced a great source of dislocation. When gold was abandoned, currency policies and exchange rates were left to be regimented by governments. The economic policy of Great Britain in going protectionist, in closing up the markets of the British Empire and in having bilateral commercial agreements with

foreign governments to wrench concessions from them threw the already tottering world commerce into utter collapse. Previous commercial treaties which had served as the basis for triangular trade were rapidly discarded. As Mr. Condliffe points out (World Economic Survey 1932-33) "the tariff warfare naturally fed on itself and has continued to do so as duties have been deconsolidated, treaties have been denounced or allowed to expire, currency instability has led to a maze of new protectionist regulations and private trading generally has given way to administrative controls." Thus triangular trade was discarded in favour of bilateral trade treaties concluded by the governments. Governments no longer regulated trade through the tariff. They have come to possess all the vital levels of trade and subordinated foreign trade to internal trade. Private interests have ceased to have any freedom in external trade. Legal interference with trade has been complete and several non-tariff instruments of trade control were forged to make the national economic plan a thorough success.

Bilateral trade agreements were the result of the great crisis and were meant to be only temporary short-term adjustments aiming at stabilising the rapidly shrinking external

trade. National economic planning was resorted to in order to increase internal production, stabilise prices, keep the balance between industry and agriculture, decrease unemployment and raise the purchasing power of the people. In this plan foreign trade was given a secondary place and made to conform to the requirements of the general economic plan. The foremost problem in the external trade of several important countries was the balance of indebtedness. Debtor countries like Germany wanted a way out of the huge external debt which they could not normally pay off by merchandise exports or adjust by the import of capital. This financial crisis led to government regimenting of trade and bilateral commercial treaties in several debtor countries. M.F.N. treatment was abandoned and non-tariff instruments like import quotas, exchange control, licensing, government monopoly, barter arrangements, bounties, subsidies and a host of other administrative devices were developed and incorporated as bargaining points in the bilateral trade treaty.

Germany may be taken as the model for strict bilateral trade control. Before the Depression, she was regularly receiving American capital for the reconstruction and

revival of her foreign trade. After 1929 American long term capital investments ceased to be available and Germany could get only short term funds. As the crisis developed and when the gold standard was everywhere abandoned, Germany was obstinate in sticking to the gold standard. Owing to the currency depreciation outside, she had to face a financial crisis. The necessity to maintain foreign markets was great. In such circumstances, the Nazi regime evolved a plan of bilateral restrictionism. The financial crisis necessitated a moratorium generally known as the Standstill Agreements and a rigid control of German foreign exchange. The move for bilateral pacts quickly spread to the other countries of Europe.

Among the chief specialised types of bilateral agreements may be mentioned the compensation payments and clearing agreements in particular. Compensation agreement is a barter arrangement under which the parties concerned agree to exchange a fixed amount of specified goods from each to the other, the value of the exports of either to the other being the same. Payments agreement is a deal by which a country imposing rigid exchange control consents to set apart a portion of the proceeds of her exports to

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facilitate imports from the contracting country. Clearing agreements are explained by Leo Pasvolsky thus :—

“Under a clearing agreement the use of foreign exchange is almost completely eliminated. Persons in country A who buy goods from country B make payment in their own national currency to a specially designated agency in their own country, while persons in country B who buy goods from country A similarly make payment in their national currency to a specially designated agency in their own country. Exporters in each country receive payment from their respective agencies. Thus the international commercial operations involved are carried out in each country's national currency. Accounts between the two countries become pure book-keeping transactions, except when there are balances in favour of one or the other, which are settled by means of foreign exchange or in some other agreed manner.”

While the German type of bilateralism is thus very rigid covering merchandise trade as well as payments, the bilateral treaties concluded by the United Kingdom since 1933 and by the United States of America since 1934 are more liberal in conception. Having raised

her tariff walls in 1931 and secured an advantageous imperial preference throughout her vast empire, the United Kingdom offered to reduce her tariffs in favour of any foreign country which offered similar satisfactory concessions in return. The United States of America have made agreements with more than 50 countries for tariff concessions on a reciprocal basis. The chief feature of American reciprocal pacts is that they safeguard the unconditional most-favoured-nation clause treatment in future. The British and American trade treaties have left comparatively large room for common concerted attempts at international economic recovery. But the German pacts are exclusive and have placed a deadweight on any upward trend in commerce. But all the above types of bilateral pacts artificialise the direction of trade and thus thwart the free progress of international trade on the principle of comparative advantage.

The disadvantages of bilateral trade treaties are many. In actual working they lead to a decrease in the total quantum of trade and bring in all the evils of official and semi-official regimentation of business. Debtor countries which were powerful enough to force others to participate in reciprocal agree-

ments gained phenomenally during the period of the great slump. Creditor countries which agreed to the rigid type of bilateral agreements were compelled to accept exports from the debtor countries. The diversion of trade currents into artificial channels led to the necessity of purchasing from a high cost source instead of importing from the cheapest international supplier. The short term character and the discriminating tendency of bilateral treaties have led to diplomatic irritation blocking all attempts at international economic cooperation.

Though bilateral pacts are fraught with evils, it should not be forgotten that they are the results of dire necessity during abnormal times. Reciprocity agreements merely symbolise a policy of expediency designed to contribute a temporary solution in a chaotic world. Although they nullified the full working of international division of labour, they represent the struggle for safety and stability badly needed by a large number of distressed countries. Bilateral restricted trade may be worse than the free operation of triangular trade; but it is better than no trade at all. During a stage of acute depression, bilateral policy has in fact served to save several countries from utter collapse and

deadening uncertainty in commerce. No doubt when the world tries again to come out of the economic mire, these safety pacts may act as a dead weight, preventing growth and freedom of action. But it is to be hoped that the knowledge that triangular trade alone will lead to prosperity, plenty and peace may in future prevail over the politicians of the world.

INDIA AND BILATERALISM:—There has been a strong opinion among the mercantile community in India that India should have entered into reciprocal pacts with foreign countries in order to safeguard her external markets from shrinking or being lost to a more successful competitor. The advantages of bilateral pacts in increasing our exports and in alleviating the slump in this country are often emphasised. In 1936 the Legislative Assembly passed a resolution urging the government to terminate the Ottawa Agreement, to negotiate for a better agreement with the United Kingdom and to conclude bilateral pacts with important foreign countries.

But it is to be remembered that bilateralism involves the balancing not only of merchandise trade but also of payments. India has a favourable balance with important foreign

countries and she is heavily indebted to the United Kingdom. If we could strike a strict bilateral pact with the United Kingdom, it would indeed be a tremendous achievement. But since India is a subordinate country it is well-nigh impossible. Bilateral balancing of our trade with foreign countries will only lead to a reduction in our favourable balance and thereby our indebtedness to the United Kingdom would only increase.

India has concluded certain commercial agreements with the United Kingdom and Japan. The Ottawa Pact of 1932 as well as the Indo-British Trade Agreement of 1939 has been injurious to national interests and was concluded at the teeth of national protest. The Indo-Japanese trade agreements of 1934 and 1937 were the result not of deliberate planning and wise negotiations, but of Japanese threat, boycott and subsequent surrender to pressure. The Government of India fight shy of bilateralism. They explain away India's ills as the unavoidable results of unfortunate international events. They argue that India, being a supplier of raw materials, need not go in for bilateral agreements and that with an early revival of world trade she would prosper automatically.

Regarding the advisability of adopting a bilateral policy for India certain remarks may be made. When important foreign countries have begun to plan their economies fundamentally and fully we should also fall in line; otherwise we may stand to lose. But bilateral control of foreign trade can be useful only if it is a part of a comprehensive and well-thought out economic plan for India along national lines. Control of external trade must be a part of the scheme to control the national economy. India should possess full fiscal freedom to regiment trade and to use all the levels of economic control tariff and non-tariff devices in order to achieve the ideal. But, as things stand at present, India cannot plan for herself satisfactorily. Piecemeal bilateral trade treaties without sufficient powers to conduct economic warfare against injuring foreign nations would only make matters worse. Bilateralism, no doubt, has its attractions for India, but today circumstances are such that she has to be satisfied with a policy of masterly inactivity in foreign trade and wait with Micawber for something to turn up.

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## CHAPTER VII

### *Imperial Preference.*

**R**ECENT years placed India within a closely knit 'Empire Unit' and perhaps at no other time in her past was there so significant a change in the policy and direction of her foreign trade. From 1929 the economic activities of the world have been disturbed enormously and international specialisation and inter-state commerce have been thrown out of gear. Both the press and the political circles in the British Empire gave an importance to the development of closer economic relationship among the component units of the British Commonwealth of Nations. And from 1932 onwards Indian trade and production have continued to be regulated and directed by the policy of 'Imperial Preference.' In order to understand the implications of imperial preference, a brief review of the development of inter-imperial trade policy is indispensable.

From 1860 the British Empire trade policy threw open the markets of British colonies

to be exploited by all progressive countries without discrimination. From 1860 to 1880 Britain was pursuing the so-called 'open door' policy to the dissatisfaction of the colonies which pursued a protective policy and which gradually began to guard their fiscal powers jealously. The trade policies of the colonies were circumscribed by the policy of the British Government which was committed to free trade and whose trade treaties were marked by the 'most favoured nation clause' principle. Owing to difficulties arising out of the tariffs and the commercial competition of foreign countries, the colonies began to raise the question of Imperial Preference rather insistently. The colonial conferences held after 1887 brought the idea to the forefront. Gradually the brunt of world competition was felt by the British industries with the result that, at the Colonial Conference of 1897, an attempt was earnestly made to stimulate markets in the British Empire. The leading colonies were given power to adopt an imperial preference policy. Great Britain denounced her treaties with Belgium and Germany and thereby the legal difficulties in the way of giving preferences to the mother country were removed. One after another, the important dominions exercised their fiscal autonomy for the adoption of imperial preference. Canada

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took up the lead when, in 1897, she reduced the import duties by one eighth on goods imported from the United Kingdom, and in 1900 preference was enhanced and extended to India, the Straits Settlements, Ceylon, Bermuda, British Guinea, West Indies, South Africa, and New Zealand. In return for the defence services, the colonies promised certain preferences to British goods for the goods imported from the United Kingdom. When Mr. Joseph Chamberlain carried on his campaign in 1903 for the adoption of imperial preference as the Empire Economic Policy, Canada allowed a 25% reduction on the *ad valorem* duties on British goods. A three-decker tariff was developed with great advantage to the U.K. Articles imported from the mother country into Canada—goods which were subjected to specific duties—were given preference in 1906, and a 'free list' was maintained to favour imports from the U.K. In 1903 New Zealand imposed additional duties on the imports from the non-Empire countries. In 1907 the empire free list increased and the scope and application of the preferences widened. South Africa demonstrated her good will in 1906 and Australia in 1907. It was expected that the United Kingdom would shortly reciprocate by similar tariff concessions and adopt a policy of imperial prefer-

ence. But the preference policy was discarded by public opinion in England—as evidenced by the General Elections of 1906 and 1910—because an all-round imperial preference policy over and above the protective level of tariff necessitated the taxation of food imported into England from non-empire countries. On the eve of the war, therefore, the British Empire was a net work of tariffs to the advantage of the United Kingdom, but the British Government could not extend preferences to the colonies and dominions. (The British tariff system was designed, till 1919, for purposes of revenue only and not for preference or protective policies.)

The Great War of 1914—18 gave an opportunity for the development of imperial cooperation in several fields of activity, and during the strain and stress of the critical years of the world war, the immense potentialities and the great political importance of the empire trade were fully realised both in supplying food to the United Kingdom market and in serving as profitable markets for the British manufactures. Those strenuous years brought the members of the empire into a closer and more intimate contact and offered a proper time and background for the reconsideration of imperial preference.

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The after-effects of the war indicated clearly that Great Britain should not expect rosy years which would assure her commercial supremacy. Free trade was advantageous when no competitors threatened the field, but the aftermath of the war was a clear discouragement of Great Britain's faith in the efficacy of a free trade policy. The perception of British statesmen was quick to notice the changed conditions. Great Britain's industrial leadership was seriously threatened. The empire then offered chances of development and the cohesion of the British empire was found to be all important if the empire was to hold its own. So the idea of mutual dependence and cooperation in the economic sphere was recognised by the United Kingdom.

The Imperial War Conference of 1917 advocated a policy of imperial preference so that the British Empire might be made independent "in respect of food supplies, raw materials and other essential industries." Great Britain definitely went over to the system of imperial preference when, as a result of the Finance Act of 1919, a rebate of  $33\frac{1}{3}\%$  was allowed on empire goods which were subject to the Mckenna duties, and also a preference of one sixth of revenue duties

on import goods. It was then that Indian exports like tea, tobacco, and coffee enjoyed preference in the British market. In 1921 the United Kingdom ceased to impose some duties under the safeguarding of the Industries Act, i.e. the key industry duties, and the depreciated currency duties,—on goods of empire origin. The significant change in principle observable during the years from 1919 to 1921 was carried through many minor tariff changes and slowly by 1929 on the eve of the Great Depression, the United Kingdom's fiscal policy had begun to entertain the idea of imperial preference and protection. In order to examine and collect facts and figures to aid the development of this new empire economic policy the Imperial Economic Committee was set up and in 1926 the British Government appointed the Empire Marketing Board to foster inter-imperial trade.

The sudden visitation of the economic crisis after the Wall Street crash of October 1929 necessitated a change in the British economic policy. The low level of prices, the depression in their industries, the fall in exports, the deficit budget, the hordes of unemployed men and women and the keen commercial competition from European countries and Japan—all these taught British

statesmen that they should tighten their belts. The gold standard was first abandoned in 1931 to safeguard England's exports and to line up the sterling area for her command. The free trade policy was given up and the Imports Duties Act of 1931 and the Ottawa Agreements of 1932 were devices to make use of tariff as an instrument of revenue, as a weapon with which to bargain for concessions to revive her exports and as a means of promoting inter-imperial trade on the principle, the home producer first, empire producer second, and foreign producer last, and the subsequent policy of bilateral trade agreements with individual foreign countries to stabilise her economy. Ottawa Agreements, therefore, were only one of the many attempts which the United Kingdom devised to shift upon India, the empire and the world a part of her difficulty and to maintain her industrial and commercial leadership.

### *Implications of Imperial Preference.*

The central aim of the post-war movement to build up the British Empire as a close web of economic interdependence has been to create a "united empire in which production and trade of all the countries comprising the empire shall be organised in such a

way that the greatest good for the greatest number of the British people will result." That aim was to be realised by the levy of lower customs duties on the imports of goods from the empire countries as against the relatively higher duties on non-empire countries. It was also assured that preference did not involve the abandonment of the policy of protection in which every member of the empire was interested. In other words, every empire country was expected to give the United Kingdom a greater share of those imports which that country did not or could not produce herself. So, imperial preference, as distinguished from empire free trade, allowed the imposition of tariffs even within the empire orbit for purposes of protecting the industries of the various units.

The enthusiasts of the empire trade idea pointed out that the mad drive towards economic autarchy had reduced international trade to a mere fraction of its previous magnitude and that the British Empire, which was bound by a common sentimental tie, should make use of comparative economic sanity which would serve as an example to the rest of the world and gradually attract others into its orbit. They drew attention to the fact that empire countries had immense potentialities

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to be utilised by a cooperative endeavour and harmonious specialisation in production and trade. It was shown that, though not self-sufficient in cotton, beef, and oil, the empire could be self-sufficient in staples. The surplus of rubber, gold, wool, etc. which the empire had could be exchanged for some commodities from non-empire areas, and so the loss in foreign markets might be more than compensated by the widened and sheltered market of the Empire Zollverein. Further, the economic resources of the empire were best suited to the production of food stuffs and to the supply of raw materials for the United Kingdom market which was an important and growing market in the world for such products. The plea for a complementary plan and cooperative attempt was also made on the ground that the British Empire offered the greatest security to production and trade in a world full of the uncertainties and dangerous insecurities of international commerce. Hopes were raised on the score that the empire covered a quarter of the globe surface and consisted of all climates, of a variety of peoples, in different stages of economic development but connected by common links of empire attachment and business traditions. The rapidly increasing population of this very wide area held great promises of

inter-imperial economic development. The machinery of finance in the empire and the overseas investment of the United Kingdom showed that cooperation in the financial sphere was, in the post-war era, working in a way conducive to the coordination of the commercial activities of the empire units and the great stability and world-wide reputation of the London investment market made the fostering of imperial trade policy easier. When England went off the gold standard, the dominions soon followed suit and the sterling area further added a new factor, the aid of currency and credit, for the development of imperial preference. Post-war years witnessed huge tariff walls raised round the U.S.A. and other great powers sheltering competitive industries. The United Kingdom had to learn the lesson that the effective way of preventing the economic penetration of foreign powers into British possessions and the only way in which the Empire could be safeguarded against disintegration was the organisation of a close economic interdependence.

Those who strenuously denounced the imperial preference scheme argued on the same grounds as those that inspired the sponsors of the preference idea, *viz.*, sentiment, economic

advantage, and political expediency. They pointed out that more than 75% of the British Empire population are not British and that even amongst the whites, the affinity towards the mother country has not always expressed itself to the extent of sacrificing the dominion interests for the interests of the so-called 'mother country.' The arguments against imperial preference held good even from the point of view of the trade interests of the United Kingdom. In 1929 the trade of the United Kingdom with foreign countries was as high as 59%. The world economic crisis was in full swing and several countries were organising a common agreement for the reduction of tariffs which materialised in the convening of the World Economic Conference, in 1933. In the present state of rigid interdependence of the economies of different nations in a common net to align  $\frac{1}{4}$  of the globe in a bloc and to raise further tariff walls around it and to reduce the already meagre prospects of foreigners could not be construed either as a stroke of good will or as a measure of lifting trade depression. Imperial preference gave an additional fillip to the unhealthy move towards national self-sufficiency and added other obstructions to world commerce. This policy of empire protection reduced the imports from foreign countries into the empire

and thereby reduced their purchasing power and this reduction in their purchasing power in turn reduced the export of goods from the empire to those countries. This has been specially noticeable in the case of India. It was not at all expedient to divert trade artificially from non-empire to the empire channels and the time chosen in 1932 was most inopportune. The atmosphere of suspicion and tension, and the deadlock between Canada and the United Kingdom during the Conference were a clear pointer towards the enormous difficulties of compromising the various interests even within the British Empire.

Eminent British statesmen opposed the Imperial Preference Scheme which was put into operation through the Ottawa Agreements of 1932. As Dr. J. H. Richardson puts it in his British Economic Foreign Policy, "The Samuelite Liberals considered that the Agreements would be a hindrance rather than a help to trade recovery, that they added new obstacles to world trade particularly by quotas and new duties on foreign products, that the British Parliament was surrendering rights by binding itself not to reduce certain duties without the consent of the dominions, that the British Government has limited its power to

negotiate freer conditions of trade with other countries, that the taxation of essential food-stuffs imposed new burdens on the mass of the people, and that strain would be imposed on empire unity and friendship by endless bickerings which the operation of the Agreements would involve." Those who took pride in the fact that the machinery of finance which combines the unity of the empire together facilitating a common economic policy overlooked the area and the nature of the influence of the sterling. Not only the dominions but also foreign countries were encouraged to join the so-called sterling area and they were treated on a par with the countries of the British Empire. But, contrary to the spirit of currency cooperation, the British tariff policy of 1931 and the imperial preference adopted in 1932 introduced a story of discrimination in favour of empire countries. The consequences of this move cannot be satisfactory.

Professor Alfred Marshall in his memorandum on England's Fiscal Policy (1908) points out clearly that preferential arrangement to bring about inter-imperial unity would be a definite economic loss both to the Empire and to the rest of the world whatever the gain on the political side.

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That the Ottawa preferential agreements were not justifiable even from the standpoint of political necessity or advisability could have been inferred from the bickerings in the conference or from the immediate retaliatory measures adopted by France, Germany and other European countries to the British protectionist policy since 1931. The reaction of Europe, and even of Canada and South Africa to the British protectionist policy did not indicate either good will inside the empire or indifference outside. The Ottawa agreements only served to increase the jealousy of non-empire countries and strengthened their attempts to weaken the empire. In fact, the desperate attempts made by Germany and Belgium in Europe and the energetic activities of Japan to capture the empire markets only weakened the imperial unity and demonstrated that the world was in no mood to allow the British Empire to do injury to international trade. Mr. J. E. Emlyn-Jones, ex-president of the Cardiff Chamber of Commerce said, "Ottawa like Versailles will be for years a jarring noise in the delicate mechanism of international trade, but the folly of the former will dawn upon the people more readily than the latter." The abandonment of the 'open door policy' from 1931 has no doubt served British interests but

the larger interests of the world were sacrificed. As Mr. H. V. Hudson wrote in 1933, "The Ottawa Conference must be counted as part of a gradual damning of world trade through measures of economic nationalism" (Lloyds Bank Review, Oct. 1933).

### *India and Imperial Preference.*

Informed public opinion in India has ever been against the adoption of imperial preference. Lord Curzon went into the question, and, after a detailed examination of India's trade, tariffs, and commercial relations with the empire and non-empire countries definitely rejected the proposals in 1904. After the close of the Great War of 1914-18 the new experience and new requirements threw up the preference idea once again into lime light. Yet the Indian Fiscal Commission found that Indian opinion was still arrayed against the preference policy. The undesirability of a preference scheme for India is based on the fear (1) that it would diminish protection, (2) that it would lead to an increased burden on the consumer, (3) that it would nullify fiscal autonomy, (4) that it would affect the general revenues adversely and (5) that it would lead to retaliation by foreigners. Since India was a subordinate govern-

ment, it was pointed out, she was politically handicapped in her attempts to afford protection to her interests. The administration of the Government of India in the past has been such that one cannot feel that preference should be wholly voluntary and should not go beyond what the circumstances of each unit might reasonably permit. In order that the preferential arrangement might not be made a device solely to serve imperialist interests in India, the Fiscal Commission have definitely laid down certain important principles and methods of procedure. They stated :

“In the first place no preference should be granted on any article without the approval of the Indian Legislature. Secondly, no preference given should in any way diminish the protection required by Indian industries. Thirdly, the preference should not involve any appreciable economic loss to India after taking into account the economic gain which India derives from the preference granted her by the United Kingdom. We would therefore recommend that, as a preliminary to any consideration of the desirability of India adopting the policy of imperial preference an examination should be made by the Tariff Board to determine whether there are any commodities on which preference might be

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given in accordance with the principles we have laid down to the benefit of the empire and without detriment to Indian interests."

It is remarkable indeed that the Ottawa preferential scheme which India adopted in 1932 has not satisfied any of the above conditions.

In fact, preferences by way of concession in import duties were recognised both by the United Kingdom and by the Government of India even before 1932. When the United Kingdom went over to the preferential scheme in 1919, Indian tea, tobacco, and coffee came to enjoy the benefit and the Finance Act of 1925 enlarged the preferences granted by the United Kingdom. In 1919 when an export duty of 15% was imposed on untanned hides and skins in order to help the Indian tanning industry, the Legislative Council granted a rebate of  $\frac{2}{3}$  of the duty on those to be tanned within the British Empire. In 1926 the Indian Tariff Board advocated preferential duties to British steel. Again, in 1930, though the Tariff Board did not propose any special concession to the cotton imports from the United Kingdom, the Government of India successfully introduced preferential rates and the Indian Legislative Assembly had merely to

give its consent. But in neither case did India accept imperial preference as a general fiscal policy.

The trend of the foreign trade of India from 1913 scarcely confirms the desirability of plunging India into the imperial preference scheme. A careful analysis of the exports and imports since the war of 1914 reveals four tendencies :—(1) India has been rapidly industrialising herself, (2) the United Kingdom has been fast losing its predominant position in the Indian market, (3) Japan and U.S.A. have succeeded in penetrating the Indian market at the expense of the United Kingdom and (4) the Central European powers which lost their share of Indian trade during the war of 1914–18 have, since 1920, rapidly recovered their original pre-war position. The free trade policy of the United Kingdom had no influence on foreign powers which grew up rapidly under schemes of tariff walls. The result was that many industrialised countries began to compete with the United Kingdom with ever increasing success. Naturally, England was interested in protecting her exports by safeguarding the empire market and by preventing the penetration of foreign powers into the Indian market. While India's trade with non-empire countries has been expanding to her

advantage, the United Kingdom is interested in discouraging this tendency so as to retain India for her export trade and to attract raw materials and foodstuffs from this vast country. Internationally, India continues to be a debtor country. She has to find a huge export surplus to pay off her financial obligations to the United Kingdom. To retain the stability in trade and foreign exchange this export surplus has to be found somehow. Our trade relations with non-empire countries secure a net profit to India and enable her to meet the demands of the United Kingdom with whom India normally has an adverse balance of trade. Imperial preference interferes with the development of direct and advantageous trade relations between India and the non-empire countries. Friendship and cooperation with foreign powers were, especially during the slump, a necessity to the Indian exports, the poor Indian consumers and to the government revenues. If a fiscal policy should unfavourably discriminate against the non-empire countries, they would retaliate openly and their power to purchase Indian exports would be reduced. India is a market of very poor consumers and the supplies of non-empire countries have been cheap and suited to the tastes and the conveniences of the Indian public. Imperial preference is bound to raise the prices of imports

from foreign countries and thus adversely affect the consumers. Further, a preferential arrangement between the United Kingdom and India is to be a preference for the manufactured goods of the United Kingdom on the one side and the raw materials and foodstuffs of India on the other. Preference, generally, is not necessary for a country exporting raw material so much as it is for a highly industrialised country. As the Fiscal Commission stated: "The economic advantage derived from a preference tends to be more important in the case of manufactured goods than in the case of raw materials. Manufactures nearly always meet with keen competition in foreign markets and therefore a preference on manufactures is nearly always of value. The position in regard to raw materials is different. In the first place they are usually admitted free into foreign markets, so that the possibility of a preference does not arise; in the second place, it is an obvious fact that to a large extent they find their markets ready made, whereas the markets for manufactures have to be developed and carefully nursed. With a comparatively small degree of competition to meet, it is clear that raw materials stand very much less in need of preference than do manufactures and that the gain to them by preference is likely to be correspondingly smaller. With regard to food-

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stuffs the general tendency in most countries is to admit them free and the possibilities of preference are limited." This speaks clearly of the relative advantage that is always expected to accrue to both sides.

Those who supported imperial preference for India pointed out that Indian export trade, especially after 1928, began to pass through critical competition in various corners of the world. The emergence of Soviet Russia with her collectivisation and mechanisation of agriculture was shown to be a great menace to Indian cultivators. It was a fact that a plan to use Egyptian cotton displacing the Indian jute was in the air, but one should note that the fear of substitutes has been created since 1900 and nothing serious has happened to the demand for Indian cotton. Further, substitutes are a greater danger to manufactures than to raw materials and foodstuffs. In fact the policy of self-sufficiency adopted by the central European powers did not affect the Indian agricultural exports seriously. The main direction of the revival of Indian exports should be by way of improving the quality, grading and finish of our export articles, economical marketing and extensive advertising. A small concession in customs duties would not be of great utility in capturing the

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United Kingdom market. Since 1929 the chief problem of Indian export trade has not been foreign competition but a steep fall in prices. A rise in prices cannot follow if the important foreign markets are shut out as a result of a discriminating imperial preference. Already, even before 1932, the United Kingdom enjoyed a great many advantages in India. But in spite of those advantages and in spite of the rationalisation schemes of British industries from 1919 to 1927, foreign countries could successfully gain ground in the Indian market. Thus while the United Kingdom was interested in foisting upon India the policy of imperial preference, the essential interests of Indian economy were against such a course.

## CHAPTER VIII

### *Indian Trade Agreements.*

THE numerous trade agreements in which the Indian Government participated, the protracted negotiations and their final breakdown form a very interesting part of the study of the course of Indian foreign trade. But, in a short chapter like this, we can attempt to give but a brief account of the trade agreements that were arrived at during the last decade.

INDIA AND THE OTTAWA AGREEMENT OF 1932 :—The great economic depression that took place in Britain during this period impelled the British Government to enter into close trade relationship with the empire countries. These agreements were meant to insure the empire markets for empire products and, above all, to bring about some improvement in the industrial conditions of the United Kingdom. Prior even to the Ottawa Agreement, the United Kingdom had changed over to a protectionist policy to save her

exports, to encourage her industries and to solve the unemployment problem. To this end, the Import Duties Act of 1932 was passed and a general duty of 10% *ad valorem* was imposed on all imports. But the enforcement of this Act against Indian and Dominion imports was suspended for some time in view of the prospects of India, the Dominions and the United Kingdom entering into an agreement by which the products of the respective countries would get an assured market within the empire itself.

THE CHIEF FEATURES OF THE AGREEMENT:—Indian exports to the United Kingdom which would receive preferential treatment according to the Ottawa Agreement were classified into four schedules, A, B, C and D. The commodities in the respective schedules are as follows:—

*Schedule A.* Wheat, rice excluding broken rice, oils, magnesium chloride and linseed. These commodities are subject to specific rates of duty.

*Schedule B.* Coffee. It would have a marginal preference of 9sh. 4d. per cwt.

*Schedule C.* Tea, coir goods, cotton and jute manufactures, woolen carpets and rugs, undressed leather, oil-seed cake, paraffin wax,

spices, teak and other hard woods, groundnuts, tobacco etc. For these commodities definite assurance was given that they would get the highest margin of preference with the empire.

*Schedule D.* Lac, raw jute, myrobalans, broken rice, mica and some varieties of Indian hemp. Commodities in this list are allowed free of any import duty.

The British Import Duties Act applied to the imports of barley, pulses, miscellaneous food grains, manure and bones, raw goat skins and asbestos; but Article I of the Agreement guaranteed the free entry of these commodities into Britain.

IMPORT SIDE:—The other part of the Ottawa Agreement consisted of preferences shown to the commodities imported into India from Britain. The import concessions given to the British products were of considerable importance to Britain because the concessions by themselves enabled the British products to compete effectively in the Indian market. The preferential treatment given to British products numbered about 163. The list of articles for which preference was shown was very comprehensive and Britain had nothing to complain about the inadequacy of the preference shown. According to the terms of the agreement, India undertook to give a 7½%

preference on motor vehicles and 10% preference to general imports from the United Kingdom. Some of the articles given preference in the following list will give an indication of their nature:—"Building and engineering material, chemicals, drugs and medicines, earthen ware and porcelain, furniture and cabinet ware, hardware, instruments, apparatus and appliances, (electrical, musical, photographic, scientific, surgical, wireless and miscellaneous), leather manufactures, aluminium, copper, lead, German silver, zinc, brass and similar alloys and manufactures thereof; paint and painter's material, paper and stationery, rubber tyres and other manufactures of rubber vehicles not mechanically propelled and cycles. A 10% preference is also applicable to the various miscellaneous manufactures, to certain articles of food and drink and to certain oils."

Apart from the main Ottawa Agreement, a supplementary agreement was entered into between Britain and India. The supplementary agreement provided that up to the 31st March 1934, the duties on galvanised sheet should be as follows:—(1) Sheet made in the United Kingdom from Indian sheet bar, Rs. 30 per ton, (2) sheet made in the United Kingdom from other sheet bar, Rs. 53 per ton and (3) sheet not made in the United Kingdom Rs. 83 per ton.

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The agreement was ratified by the Indian Legislative Assembly and, according to its terms, the agreement can be terminated at any time provided six months notice is given by either of the signatures to it.

After the conclusion of the Ottawa Agreement public opinion was divided in assessing its value. The government and the official circles advanced argument after argument to prove the great advantage India derived by the pact with Britain. The traders in India and the political organisations in the country voiced a different opinion altogether. They said that India's favourable position in the world trade was sold out in order to benefit British manufacturing industries which were suffering from the consequences of closure of markets in different parts of the world, and also from the ugly prospects of the loss of valuable markets in India, where the British manufactured articles had to face powerful competition from the products of the newly industrialised countries. The arguments of the rival parties are based on facts taken from the same source and the arguments offer very valuable and interesting reading. Let us consider some of them under two headings: "The case for the

Ottawa Pact" and "The case against the Ottawa Pact."

## THE CASE FOR THE OTTAWA PACT:—

1. The economic depression of the last decade was characterised by a great decline in prices. The prices of raw materials fell much more steeply than the prices of other commodities. Besides, owing to virgin lands in different parts of the world being brought under cultivation, additional products began to invade the world markets aided by improved transport facilities. Many countries which were industrially backward before the last war, for instance, Japan, began to industrialise themselves and turned to be powerful competitors of the old industrial countries in the world's markets. The Ottawa Pact gave Indian raw materials a preferential treatment in the great open markets of Great Britain, while it also gave preferential treatment to a large number of British manufactured products. The advocates of the Pact said that it was a wise step on the part of India to have entered into an agreement with Britain, for any failure to do so would have resulted in the loss of the world's most stable and largest open market, namely, the United Kingdom.

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2. The depression brought in its train great currency difficulties. France and Germany had to struggle hard to keep their heads above water. But the empire countries within the Sterling Bloc solved the exchange difficulties that threatened their foreign trade by an agreement and by mutual ensuring of their markets to the products of the empire countries by the principle of preferential treatment and other means. Thus, despite great exchange variations, Indian foreign trade was carried on normally owing to the Ottawa Pact.

3. Facts and figures were given to prove the substantial gains India made by the Pact.

### *Total Exports from India.*

(In lakhs of rupees).

Total value	1931-32	1932-33	1933-34	1934-35
To all countries	157,56	133,27	147,52	152,39
Index	100	84·6	93·6	96·7
To the United Kingdom	42,88	36,82	47,21	48,07
Index	100	85·9	110·1	112·1
To other countries	114,68	96,45	100,31	104,32
Index	100	84·1	87·5	90·9

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	Percentage increase in 1933-34 in comparison with 1932-33	Percentage increase in 1934-35 in comparison with 1933-34	Percentage increase in 1934-35 in comparison with 1932-33
All countries	10.5	3.3	14
United Kingdom	28.2	1.8	30.5
Other countries	4	3.9	8

The above statistics prove how, after the fall in the exports in 1932-33, there was a revival in the next year. The exports to the United Kingdom showed a sudden rise whereas the exports to other countries did not exhibit any such rapid revival. However, in the next year 1934-35, the rate of revival was not kept up even though we find a tendency to an increase in exports.

**THE CASE AGAINST THE OTTAWA PACT:-**  
The Ottawa Pact was criticised from different platforms. Indeed, the general argument against the Pact was so pointed and matter-of-fact that the Government had finally to adopt an apologetic attitude. Let us consider here some of the arguments against the adoption of this Pact.

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1. The relation between the Dominions and India was embittered by the Dominions putting innumerable restrictions on the Indians already settled there and by prohibiting further Indian immigration. It is a rather difficult task to bring together countries with strained relations by a trade agreement said to contain provisions detrimental to the prosperity of India in the international trade.

2. "A trade Agreement on reciprocity basis cannot be arrived at when one party is politically subordinate to another party and hence possesses no power to check the politically superior party from ignoring any of the demands of the agreement in actual administration. And further, the fact that India was in 1932—as she is still today—an agricultural country and hence in a lower stage of economic development, complicates the problem of a satisfactory mutual agreement by mere tariff concessions." The procedure adopted at Ottawa did not assure the people that the results would satisfy their aspirations.

3. It has been pointed out that, if Britain made some concessions to Indian products, it was because she could not possibly refuse to give such concessions in her own interest. Britain made a great show by conceding what

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she must inevitably concede, and at the same time, she claimed in return some concessions in the Indian market for her manufactured products. Indian exports are in the nature of food stuffs, raw materials and some semi-manufactures. The free entry of these commodities into the British market cannot be regarded as a favour shown to India but a boon to the consumers in England; it was in fact a move to decrease the cost of production of England's manufactured goods. It must be noted that the concessions given to India are equally shared by the Dominions, and India had to face the powerful competition of the Dominion exports in respect of (i) pig-lead (ii) coffee (iii) spices (iv) tobacco (v) pulses (vi) beans and barley. In the case of tea the concessions given to India were also shared by Ceylon which is the largest supplier to the United Kingdom next to India. Thus the case put up by the advocates of the Ottawa Pact that India got exclusive preferential treatment falls to the ground. If anything can at all be claimed for the agreement, it is on the score that it equalised the handicaps between the Dominion and Indian products so that the British consumer and the British manufacturer could get respectively their food stuffs and raw materials cheap.

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4. The Majority Report of the Legislative Assembly Select Committee set up to examine the possibility and desirability of the Ottawa Scheme said that Indian exports registered a sharp fall in price due to the increasing tariff obstacles India had to face in other countries. Indian exports to countries other than Great Britain declined because India showed preferential treatment to British manufactured products as against the manufactured products of other countries. The countries which were affected by the preferential treatment shown to Great Britain retaliated by passing new tariff measures against Indian imports.

5. The United Kingdom gave preferential treatment for tea, jute manufactures, tanned hides and skins, goat skins, castor seeds, teakwood, oil-seed cake, groundnuts, coir-goods and sandalwood oil. The preferential treatment which Britain gave to Indian tea was of little use because similar preference was shown by her to Ceylon tea also. This amounted to giving encouragement to a powerful competitor. By this method, Britain, however, achieved her purpose of getting her food products cheap, even though she never conceded anything substantial to Indian products. British consump-

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tion of the ten articles mentioned above was estimated to amount to about Rs. 36·6 crores in 1929-30 out of India's total export of the value of Rs. 115 crores; and hence the more important part of the market for these commodities remained outside the empire. The result was that the preferential treatment given to Indian products deprived them of the power to win any new markets. It is clear that loss of British markets would not have dislocated Indian foreign trade and that India retained the British market at a huge loss—the loss of markets outside the empire, which adopted new retaliatory tariff measures.

6. The delegation considered it a matter of great pride to have secured free entry to shellac, raw jute, goat skins, jute manufactures, etc. India possesses a monopoly in the production of these commodities and, even without the preferential treatment, the markets for these commodities would not have been vitally affected.

7. The Agreement did not extend any preference to Indian cotton which is the most important of the exports of India. Lancashire would not take the short staple Indian cotton on the plea that her manu-

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factures needed finer qualities. But, comically enough, Britain gave preference to Indian cotton manufactured goods when it was plain that India could not sell her cotton goods in Lancashire. Instead of cotton, Britain gave preference to Indian tea. But this concession to Indian tea has always been interpreted as a concession to the British vested interests in India. Most of the plantations in India are worked with British capital and any concession to the products of Indian plantations is an indirect way of augmenting the periodical flow of dividends to British share-holders in the Indian plantation concerns. In showing preference to Indian tea, the British were profiting themselves. In an able analysis of the Ottawa Agreement, Prof. Gadgil came to the conclusion that "the incidence of the gain is highly particularised." If at all the Ottawa Pact benefited any group, it undoubtedly benefited the tea interests in India. ✓

While India faced very many difficulties as an exporter, as an importer of manufactured goods she was greatly handicapped.

1. India's participation in the Ottawa Pact greatly obstructed the imports of other countries into India. As non-empire coun-

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tries accordingly reduced their purchase of raw materials from India, India was placed in a position in which she could not enter into a bilateral trade agreement with them.

2. The Ottawa Pact had a crippling effect on Indian indigenous industries and other promising small scale industries. The preferences covered a good deal of manufactured articles all of which India could produce, provided a stimulus was given to Indian production by withholding preferential treatment to British products. "It is evident, therefore, that at a time when great circumspection with regard to future Indian development ought to have been shown, the delegation failed to strike even a mere '*quid pro quo*' between what they gained and what they gave in return."

3. The preference extended to the goods of the United Kingdom could be achieved either by a reduction of tariff rates on British goods, or by an increase in the tariff rates for goods from other countries or by a combination of the two methods. Since many of the tariff rates were imposed mainly for the purpose of protecting Indian industries, a reduction in it would be looked upon with disfavour by the vested interests. So the

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only other method would be to raise the tariffs on goods imported from countries other than the United Kingdom and make the consumer in India bear the weight of the policy. The consumer would be made to suffer under higher prices, the customs revenue would be appreciably reduced by the shrinkage of imports and the balance of trade position would be upset. This would ultimately make it difficult for India to make her regular payments like home charges etc. to Britain.

The agreement never satisfied the commercial interests of the country. The commercial bodies came to the conclusion that (1) the Ottawa Agreement, as framed in 1932, was calculated to estrange the trade relations of foreign countries who would be driven to retaliate against India in some form or other; (2) it was not conducive to the expansion of Indian exports, but would only result in a mere division of trade from foreign to empire countries without any net advantage to India; (3) the consumers and the central revenue would be adversely affected; (4) the Pact rendered the Indian "fiscal system inflexible" v virtually destroying our capacity for fiscal freedom" and (5) it was against the rising industries of India, big and small, and therefore it greatly increased India's economic depend-

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ence upon the United Kingdom and thereby increased also her political subjection.

An agreement that was criticised by important political organisations in the country, that was discredited by the generality of people and spurned by the commercial organisations could have no long life or fair degree of success. So, on 30th March 1936, when the agreement had completed its third year of operation, a resolution was passed in the Legislative Assembly recommending to the Governor-General-in-Council the termination of the Agreement without delay. On May 13, 1936, the Government of India gave six months notice of the termination of the Agreement and the Agreement came to an end on the 13th November 1936.

It was desired to replace the Ottawa Agreement by another agreement which would satisfy the different interests in India. By a Government communiqué dated the 20th October 1936, it was decided to continue the preferential treatment till a fresh agreement was arrived at. It was, however, provided that even the provisional arrangement could be terminated by either party giving three months notice.

*The Mody-Lees Pact.*

The agreement popularly known as the Mody-Lees Pact was the result of the interest taken by Mr. H. P. Mody, Chairman of the Bombay Mill Owners' Association. During his visit to England in connection with the work of the Reserve Bank Committee, Mr. Mody impressed upon Lancashire the possibility of securing great gains by an agreement with Indian mill owners and the advisability of seizing the opportunity such an agreement would offer for checking Japanese competition by joint endeavour. Lancashire had found the Indian tariff rates very burdensome and she knew friendly talks with Indian mill owners could pave the way to tariff concessions in her favour. There was also the opinion that, on the eve of great political changes in India an agreement between the two commercial interests would be widely appreciated by the political circles in England and India. So she decided upon sending a delegation to India. However, before the delegation was sent to India under the Chairmanship of Mr. Clare-Lees, the Indian Government had abrogated the Indo-Japanese convention of 1904 and thereby indirectly invited the Japanese Cotton Association's boycott of Indian raw cotton. At about the

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same time, Japan also sent a delegation to India to restore friendly relations with her.

After some weeks of discussion and negotiation, an agreement was finally arrived at and signed by Mr. (now Sir) H. P. Mody, Chairman of the Bombay Mill Owners' Association and by Mr. Clare-Lees on behalf of the Lancashire Delegation. The pact was signed on the 8th October, 1933 and it was to remain in force till the 31st December, 1935.

Before considering the pact in detail, a consideration of the procedure adopted in arriving at the pact will be of value in estimating its usefulness. A remarkable feature of the Mody-Lees Pact was that it was made without the intervention of the Governments and solely on the understanding arrived at by the representatives' interests of both the United Kingdom and India. For the first time the Governments of the United Kingdom and India stood aloof and allowed the commercial associations of the two countries to suggest trade relations and tariff adjustments. This attitude of the Government of India dispelled some of the suspicions entertained by the public that the tariff policy of India was

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always dictated by the vested interests in Britain and without any regard to the commercial progress of India.

Another important feature of the agreement was that one of the parties did not fully represent the country's interests. The Bombay Mill Owners' Association stood for but 50% of the total looms and spindles in the country and the view that what was good for half the section of textile industry in the country would be good for the other half also was greatly challenged. Bengal and other parts of India engaged in cotton textile production questioned the claims of Bombay to represent the whole of the cotton textile interests of India, especially because the spindles and looms in Bombay at this time were estimated to amount to very much less than half the total number of spindles and looms in this country.

The consumers' interests were said to be jeopardised by the agreement. In this connection it was pointed out that Bombay mill owners had never shown any sympathetic consideration for the consumers' interests and that they were desirous of raising tariffs to the detriment of the consuming public even at a time when the purchasing power of the masses

was curtailed enormously by the depression. A bilateral trade pact between the capitalists of the two countries would naturally tend to sacrifice the consumers' interests. In order to safeguard the consumer the Government's intervention to bring about a just pact should have been sought.

The Mody-Lees trade pact did not altogether consider the need for ensuring the prosperity of the cotton trade in India. Non-empire countries like Japan having extensive trade connections with India resented both the bilateral trade pact between India and Lancashire and the restriction of India's trade to imperial channels.

## *The Clauses of the Trade Pact.*

A critical consideration of the clauses of the pact may now be taken up.

CLAUSE 1. "It was agreed that the Indian Cotton Textile Industry is entitled, for its progressive development, to a reasonable measure of protection against the imports of United Kingdom yarns and piece-goods. It was also agreed that under present conditions, owing to lower costs and other factors operating in foreign countries, the industry required a

higher level of protection against them than against the United Kingdom."

The recognition by Lancashire that the Indian textile industry required a reasonable measure of protection against the imports of United Kingdom yarns and piece-goods helped only to make the fiscal autonomy of India a myth. It gave rise to serious misgivings that the Indian tariff policy was merely being adjusted according to the dictates of Lancashire interests. If the fiscal autonomy of India were real, the recognition, by Lancashire, of the need to safeguard the Indian textile industry by some 'reasonable measure of protection' would be uncalled for. Even the term 'reasonable measure of protection' used by Lancashire interests was a very elastic one.

Further, the statement that the Indian industry needed a higher level of protection against the products of foreign countries than against those of the United Kingdom would have far-reaching effects; made as it was at a time the Indo-Japanese trade negotiations were taking place, it was possibly meant to prejudice the representatives from Japan. Japan's hold on India was commercial, whereas the United Kingdom's was political. Japan was the biggest single consumer of Indian cotton; and tariff

policy against Japan, however welcome to Lancashire interests, would end in the Japanese boycott of Indian cotton. Britain could not certainly offer to India any compensation for the loss Indian cotton would suffer by its boycott in the non-empire countries. Britain would not offer to utilise Indian cotton in Lancashire mills.

In the early years of the decade commencing from 1930, Indian mills captured the whole of the Indian market for drills and jeans, dhoties, domestics, etc. Indian mills also supplied at this time about 80% of the country's demand for long-cloth and shirtings and 70% of the demand for piece-goods. British imports into India, however, mainly consisted of textiles coming under the above categories, and Britain was hence the most formidable competitor Indian production had to face: it was against British imports that Indian mills required more protection.

The lower costs of the cotton goods of foreign countries, of which Japan occupies a prominent place, were not attained by low wages. Japan observed the Washington convention concerning labour conditions from 1929 and if Japan succeeded in lowering the costs of production, it was due solely to the many

special advantages, economic and non-economic, possessed by her.

The first clause of the pact was objected to vigorously by important traders' associations in this country. The Marwari Traders' Association, Calcutta, stated as follows:— "Lancashire enjoys the advantage of free entry of raw cotton, and because of the depreciation of the English currency, the cost of production of English cotton goods is substantially lower than those of Indian mills which are handicapped by import duty on raw cotton machinery and stores. Indian mills are fully capable of producing India's requirements of cotton goods supplemented by the production of hand looms and this Association declares that it will be seriously detrimental to the interests of the country to lower the protective tariff at the present time." Even the claim of Britain for tariff concession on the ground of comparative costs has been disproved by the Marwari Traders' Association and accordingly it protested against the bartering of national interests for any reason.

Altogether, the first clause of the Mody-Lees Pact was a direct concession to the British claim for protection and it was based too much on questionable assumptions to pass unnoticed.

CLAUSE 2. It was stated that "As regards cotton piece-goods it was agreed that, if and when the revenue position of the country made it possible for the Government of India to remove the general surcharge on all imports imposed in October 1931, the Indian side would not make any fresh proposals with regard to the duties applicable to the United Kingdom imports."

The financial position of the Government of India was very unstable during the depression years, and the Finance Member had given an assurance that relief would be granted first through the income-tax, before any other item of taxation was considered. Besides the Indian Government could not be expected to yield to the pressure of the Indian Cotton Industry, just one among the many industries of India, for the retention of surcharge as a protective measure. The surcharge of 5% as well as the duty of 20% on British imports of cotton textiles was imposed for revenue purposes only and without any protectionist motive. By clause 2 of the Mody-Lees Pact, India did not lose anything since the Government's financial position did not promise any reduction of surcharges nor could the Indian cotton industry have got a higher protection than 20%.

CLAUSE 3. "In the matter of cotton yarns the Indian side has agreed that, so far as imports from the United Kingdom are concerned, the duty may be 5% *ad valorem* with a minimum specific duty of  $1\frac{1}{4}$  annas per lb."

In cotton yarns Indian mills supplied 97% of the demand and the yarns imported were only special types. The duty on yarn imports only added to the difficulties of five million handloom weavers and a reduction of import duty would have greatly helped them. Those who opposed clause 3 of the Pact wanted the complete abolition of the 5% import duty agreed to according to the Mody—Lees Pact and they failed to see that the change from the original duty of 12% on British yarn to 5% *ad valorem* offered great help to the handloom industry.

CLAUSE 4. "So far as artificial piece-goods are concerned, the Indian side agreed that, in the case of the United Kingdom, the duties may be as follows:—30% *ad valorem* or 2 annas per square yard for mixture fabrics of cotton and artificial silk." Artificial silk goods were not produced in any large quantities in India and the reduction of duty on their import only helped to stimulate the increased use of this cheap luxury.

CLAUSE 5. "In so far as the empire and other overseas markets for piece-goods and yarns are concerned, it is agreed that any advantages which might be arranged for British goods should be extended to Indian goods and that India in markets in which she has no independent quota, should participate in any quota which might be allocated to the United Kingdom." It was agreed that the Manchester Chamber of Commerce should promote the sales of Indian cotton manufactures through some of the well-known British firms in places where Indian textile producers have no contact.

CLAUSE 6. According to clause 6, the British Textile Mission gave an undertaking that it would take effective steps for promoting the use of Indian cotton in Lancashire mills and make a periodical report of their work to popularise Indian cotton. In the years 1935-36 and 1937-38, there was a greater off-take of Indian cotton by Britain than in the previous years; but in 1937-38, there was a decline. Besides, Lancashire could not make increased use of Indian cotton because its machinery was only suited to the use of American long-staple cotton.

In conclusion it may be said that the Agreement was much criticised on the score

that, while it gave definite concessions to Lancashire, it gave nothing more substantial than vague promises to India in return. There was no definite promise for the off-take of Indian cotton and Indian textiles and yet India granted tariff concessions to British yarns and artificial silk. Altogether no regard was paid in the pact to the principle of *quid pro quo*.

It was stated that the agreement with Lancashire at the time it was concluded might influence political judgment in favour of India and that India would, through the aid of the pact, get a larger slice of self-government. But later developments have proved that this was a vain hope and that the self-government of the country could not be got through placating any commercial interests.

It was also said that the agreement would secure the co-operation of the United Kingdom to drive out Japan from the Indian market; but it should be remembered that Japan was one of our main customers for cotton and it was desirable to maintain friendly relations with a good customer. Small tariff concessions to Britain could not help the Indian market to withstand the Japanese invasion of her interests especially because no big

reduction in prices would be possible. Further, India produced most of the varieties of goods imported from the United Kingdom and it was in the interests of India to make Britain resist Japanese imports and clear the Indian market for Indian manufactures, but instead the pact tended only to protect British imports through tariff concessions.

When the Government of India gave legislative sanction to the pact there was naturally much opposition to it from important sections of the textile industry in the country.

## *The Indo-Japanese Trade Agreement.*

The trade between India and Japan was for a long time regulated by the Indo-Japanese Trade Convention of 1904. But the continuous depreciation of the yen since 1932 placed the Japanese in a favourable position and enabled them to compete successfully with the Indian market. The causes that led to the phenomenal success of Japan in the Indian market were the following:—

(1) Japan was not unaffected by the depression of 1929-30, but she was the earliest to recover; and she invaded the Indian market with her cheap products. In India itself,

the agriculturists' purchasing power had been greatly reduced by the depression and they found it worthwhile to prefer the cheaper Japanese goods to others in the market.

(2) The boycott of British piece-goods in 1930-31 by the Civil Disobedience Movement gave a fillip to the import of Japanese goods into India.

(3) The boycott of Japanese goods in China in 1930 and 1931 drove the Japanese to the necessity of strengthening their hold on the Indian market and the depreciation of the yen at the end of 1931 still further helped the Japanese to expand their trade with India.

(4) The cheap money policy of the Japanese banks and the Japanese Government's active help to exporters made it possible for the Japanese to compete successfully with Indian, British and other goods in the Indian market.

(5) The gold exports from India at this time placed enormous additional purchasing power in the hands of the people and this indirectly resulted in the greater consumption of Japanese products.

(6) The rising tariff of India in the depression years reduced the strength of

European and American competitors and Japan by her capacity to produce cheaply ousted the European and American competitors from the Indian market.

The Indian cotton mills indeed agitated for increased protection from Japanese imports of textiles, but no action could be taken against the Japanese imports under the Safeguarding of Industries Act so long as the Trade Convention of 1904 was in force. So the Indian Government gave six months' notice to the Japanese Government of their intention to renounce the trade convention. In June 1933, India Government announced an increase in the duty on foreign cotton piece-goods to 75% *ad valorem* with a minimum specific duty of 6¾ annas per pound on plain greys. The Japanese Cotton Association passed a measure to boycott Indian cotton and also sent a delegation to India to seek a new agreement. The delegation arrived in India in October 1933, met the official and non-official representatives of the India Government and after negotiations lasting for three months, a new agreement was reached.

THE TERMS OF THE AGREEMENT:--The Agreement consisted of two parts: a Convention and a Protocol.

Under Article (2) of the Convention it was stated that "Articles produced or manufactured in the territories of the High Contracting Parties, on importation into the territories of the other from whatever place arriving, shall not be subjected to duties or charges other or higher than those imposed on like articles produced or manufactured in any other foreign country." This guaranteed the most-favoured nation clause treatment to the Japanese.

By Article (3) of the Convention, it was agreed that if the yen depreciated after the 31st December, 1933, the Government of India might impose increased tariff rates. This conceded to the Indian Government, at least in principle, their right to impose duties on Japanese imports according to the fluctuations of the Japanese Currency.

Article (4) said that, if a modification of customs duties by one country adversely affected the other country, the modifying country should be ready to negotiate with the other country if it desired it.

The Protocol (Article 2) provided that the Indian import duties on Japanese cotton goods should not exceed 50% *ad valorem* (or

51¼% per lb. whichever was higher) on plain greys and 50% *ad valorem* on others.

Article (3) provided that the basic quota of cotton piece-goods which might be exported to India in any piece-goods year (1st April to 31st March) should be 325 million yards on condition that Japan buys one million bales of raw cotton from India in any cotton year (1st January to 31st December). If the raw cotton bought by Japan exceeded one million bales, the quota of piece-goods might be increased by 1½ million yards for every 10,000 bales, and in no case should the piece-goods quota exceed 400 million yards. By clause (2) of the same article it was provided that if the raw cotton bought by Japan fell below one million bales, the cotton piece-goods quota might be diminished by two million yards for every 10,000 bales of the shortage.

Article (7) of the Protocol laid down that the imports should consist of 45% plain greys, 13% bordered greys, 8% bleached (white) goods and 34% coloured (printed, dyed or woven) goods. Clause (2) of the same Article prescribed certain limitations for the sub-allotment of the types of goods mentioned above. "The transfer of the amount under bordered grey or bleached goods shall not

exceed 20% of the amount of such category and the amount transferred from any one category to any other shall not exceed 10% of the amount of the category concerned. And in no case can the total quota be increased."

The boycott of Indian cotton was lifted with effect from the 1st January, 1934, and the India Government according to the terms of the Agreement reduced the import duties on Japanese goods from 75% to 50% with effect from 1st January, 1934. The Protocol without the Convention should come to an end by 31st March, 1937, and the Convention should terminate on the same date if six months' notice for its termination was given by either of the contracting parties.

**MERITS AND DEFECTS OF THE AGREEMENT:**—The agreement has been criticised from many points of view.

1. From the cotton-grower's point of view, the Indo-Japanese Agreement was a boon to growers in India. The Japanese boycott of Indian cotton forced down the price of cotton in the Indian market and, when Japan began to consume more of Indian cotton, the prices of Indian cotton rose up. About 30% of the total cotton production was exported to Japan.

2. From the point of view of the Indian cotton weaving mills, it has been pointed out that India made a 'free gift' to Japan of 125 million yards of Japanese imports of textiles. In trade agreements where the principle of reciprocity alone had to play a part, such 'free gifts' to Japan without any obligation to buy any cotton from India should not have been allowed. Though the reduction of duties on Japanese imports from 75% to 50% was a handicap to Indian mills, their competitive strength had been lessened by the tariff reduction. But Japan could not increase her imports since her imports were fixed. It was an opportunity for the United Kingdom and other European countries who possessed a higher capacity for production to increase their imports into India, in case there was any increased demand for those goods.

3. The Government of India expected an increase in the customs revenue when they raised the import duty on Japanese products to 75%. But this expectation was not fulfilled owing to the boycott of Japanese goods. When the duties were reduced to 50%, the Indian Government would have realised an increase in customs revenue provided Japan imported to the full extent allowed under the quota arrangement.

4. The cotton spinning industry has been of great importance to India, but when the agreement was arrived at between Japan and India with respect to piece-goods, the cotton spinning industry was wholly neglected. Japan saw the loop hole and made a clever use of the shortcoming in the agreement to increase the import of her cotton yarn into India.

5. Another defect in the agreement was that it did not cover the imports of artificial silk into India. The Japanese artificial silk proved to be a cheap substitute for home made fabrics. Hence the Japanese followed the line of least resistance and increased their imports of artificial silk into India.

6. The working of the agreement has shown how the numerous loop holes in it enabled the Japanese to use them for the exploitation of the Indian market. Japan always preferred the Japanese shippers in India to Indian shippers. The quota of cotton cloth imports had been fixed in linear yards; and Japan taking advantage of the terms, imported cotton cloth of larger width and thereby completely undid the purpose of the agreement. The imports of piece-goods had been restricted by the quota system but Japan flooded the Indian markets with made-up gar-

ments and thereby gave a serious blow to the Indian hosiery industry. The trade in 'fents' (the remnants of piece-goods and other fabrics not exceeding four yards in length) tended also to show a continuous increase and enormous quantities of silk mixtures were sent to India in lengths which were just less than that allowed for 'fents.' The Bengal Chamber of Commerce desired that the amount of 'fents' imported into the country should bear a definite ratio to the piece-goods quota and that in no case the ratio should exceed  $2\frac{1}{2}\%$  of the total yardage of the piece-goods imported. All told, the loop holes in the agreement provided considerable room for the evasion of the terms. In any future agreement, India should, therefore, be careful to guard herself particularly against loop holes such as Japan exploited to her own advantage.

7. Another pertinent criticism of the Indo-Japanese trade agreement was that many small scale industries and handicrafts were adversely affected by the dumping, at a cheap price, of miscellaneous manufactured articles. Japan took full advantage of the most-favoured-nation clause in the agreement to export to India large quantities of glassware, boots, shoes, hardware, wollen goods, cycles and umbrellas.

This has shown that any trade agreement with Japan should also be very comprehensive and and should specify the imports of the various items of Japanese manufacture.

8. It is stated that the purchase of Indian raw cotton by Japan was not a special concession to India, but an agreement advantageous to herself and that Japan had but agreed to purchase a cheap raw material needed for her industry. But there was no need to belittle the concession given by Japan to Indian cotton because Japan could also purchase her cotton requirements cheaply from Brazil, America, etc. To the extent that she had agreed to take a minimum of one million bales from India it was a direct concession to Indian cotton interests.

Though the agreement with Japan contained many draw-backs, it had some very wholesome lessons to give to Indian industrialists. The agreement made it clear to them that the competitive strength of Japan depended upon the rationalisation of her industrial organisation and her marketing methods. It also proved that the trade pacts with Japan based on certain policies and principles could not help to regulate the trade relations between the two countries by themselves. The agreement emphasised the need

to stiffen our administrative control of the Government in order to check effectively the Japanese inroads on the Indian market.

THE NEW INDO-JAPANESE TRADE AGREEMENT OF 1937:—When the old agreement of 1934 was to expire on the 31st March, 1937, negotiations for a new agreement began in July, 1936. This time the non-official advisers of the Commerce Department of India were unanimous in demanding the rectification of some of the salient drawbacks of the former agreement. The negotiations lasted for about nine months.

The Trade Convention of the former agreement was also adopted in this agreement and Japan was assured of the most-favoured-nation treatment for a further period of three years.

The Protocol in the New Agreement did not differ much from the original one except for some reduction in the quota of cotton imports necessitated by the separation of Burma. The annual basic quota of Japanese piece-goods imported was reduced from 325 million yards to 283 million yards due to the shrinkage of Indian markets on the eve of the separation of Burma from India. Besides the maximum limit for the import of cotton

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piece-goods into India was fixed at 358 million yards provided Japan's off-take of Indian cotton was  $11\frac{1}{2}$  million bales.

The quota for different kinds of piece-goods was as follows: (1) plain greys, 40% of the total imports; (2) bordered greys, 13%; (3) bleached (white) goods, 10%; (4) coloured printed goods, 20% and (5) coloured, dyed, or woven goods, 17%. The total imports of the cotton 'fents' were limited to 8,950,000 yards annually and the customs duties on 'fents' were 35% *ad valorem*.

The Agreement came into force from 1st April, 1937 and it was to have effect till the 31st March, 1940.

The 1937 Agreement was not very different from the previous one. The old Trade Convention was operative in the present agreement also and Japan's competition with our minor industries spelt ruin to them. No special arrangement was made to protect the indigenous industries of India. The reduction of the quota for cotton cloth effected owing to the separation of Burma was only 42 million yards, whereas the total consumption of Japanese piece-goods in Burma during the previous two years was about 70 million yards a year. So

the Indian quota for Japanese goods should be reduced by the same amount. Instead, only 42 million yards were reduced from the original quota.

Cotton fents were not included in the quota for the piece-goods but an attempt to fix the total imports of fents was in itself a blessing. The exclusion of the silk fents and artificial silk piece-goods from the operation of this agreement was severely criticised and later, the Government had to prohibit the import of artificial silk fents and also to raise the duty on the import of artificial silk piece-goods by one anna for every square yard.

Another drawback of this Agreement was that it permitted the import of made-up goods, twillings, and cotton blankets without any restrictions. By sending made-up goods Japan managed to make up what she lost by the cotton piece-goods quota. Before the agreement was concluded, non-official opinion had expressed itself for the restriction of the imports of made-up goods; but it was not given any attention.

But the agreement gave some security to the cotton growers of India. Only 50% of the Indian cotton was absorbed by the Indian

cotton mills and for the rest (about 2½ million bales) markets had to be found elsewhere. Japan's willingness to buy a million bales from India was to be welcomed since, otherwise, the Indian cotton growers would have been greatly handicapped in their effort to find markets for their produce.

In the end it must be stated that the 1937 agreement was not worse than the previous one; but the Government might have used their bargaining power to the full and fixed a higher quota. Instead of a barter agreement of raw cotton and manufactured piece-goods, a comprehensive agreement in which some protection for the small scale industries was afforded, would have been of greater value.

## *The Indo-British Trade Agreement of 1939*

In accordance with the resolution passed by the Legislative Assembly in 1936 the Government of India gave notice to terminate the Ottawa Agreement and started negotiations for a fresh and favourable one. A body of unofficial advisers was constituted and for nearly three years talks dragged on. The divergence between the point of view of the Indian commercial interests and that

of the British could not be easily bridged. But the Ottawa Agreement which should have ceased to exist long ago was allowed to operate until the conclusion and adoption of a new British Trade Agreement on the basis of imperial preference. Indian industrialists and merchants were indignant that the Ottawa pact was allowed to exist three full years after the explicit disapproval of the legislature. The failure of several preliminary talks between India and England roused further suspicions. It was only during the early months of 1939 that an understanding could be finally arrived at. Yet, unfortunately, the new pact was introduced into the Legislative Assembly in a hurry and the public felt that enough time was not given for a detailed examination of the provisions of the agreement. The new agreement was therefore born in an atmosphere of distrust and discontent. The criticisms levelled against followed similar lines to those of the debate when the Ottawa pact came in for ratification. Amidst the controversies and criticisms one feature of this new pact is generally admitted i.e., the new agreement is an improvement, however slight it may be, upon the old one which it displaces.

*Concessions to India.*

India's exports of lac, raw jute, myrobalans mica and Indian hemp—items which enjoyed free entry into the British market till now—are to continue to enjoy the privilege.

Bones, castor seed, coir yarn, cotton yarn goatskins, (raw and dry) gram, groundnut, hides and skins (undressed), linseed, magnesite, oilseed, cake and meal, paraffin wax, sandalwood oil, soya beans and spices etc. are to receive preferences at the rate of 10% *ad valorem* over foreign imports into the United Kingdom market.

The pact secures for India a 15% preference for castor oil, linseed oil, coconut oil, groundnut oil, rape oil, sesamum oil, undressed leather and jute manufacture.

A 20% preference is granted to our coir mats, cotton manufactures, blankets, shawls, sacks and bags.

Preferences at specific rates are offered on magnesium chloride at 1shilling per hundredweight, on coffee at 9sh. 4d. per hundredweight, on tea at 2d. per lb., on rice husked and in the husk at 2sh. 3d. per lb., on hand-made carpets and rugs at 4sh. 6d. per square

yard and on other kinds of carpets and rugs at 20% *ad valorem*.

Regarding tobacco, the preference that existed before is to be continued. But if the United Kingdom reduces the import duty on foreign tobacco below 2shillings 0½d. the margin of preference shall be equivalent to the full duty.

British textile imports into India are to receive the benefit of the lowered customs duty on condition that the United Kingdom takes not less than 450,000 bales of India's cotton.

The British system of granting drawbacks is to be abolished with regard to groundnut, and modified regarding linseed, so that the real value of the preference enjoyed by Indian groundnut and linseed may be increased.

Before one examines the export side of the pact the following should be kept in mind.

1. The bulk of India's exports to the United Kingdom is raw materials needed by every industrial country in the world.

2. Many items of export like lac are India's monopolies and hence free entry and

preference may not be of any direct help to them.

3. If a foreign commodity imported into the United Kingdom market is very different in quality from the Indian commodity and consequently sells as a non-competing one, preference on such an item of India's export is not of any value. There are many commodities that India exports to the United Kingdom which do not feel the direct competition of foreign imports into the United Kingdom market.

4. Many of India's exports to the United Kingdom suffer from keen competition from the British empire countries and preference on these can only be useful in averting a possible danger and not in accomplishing any fresh and solid advantage.

5. Further a large percentage of the British market has already been captured by some Indian commodities and preference cannot be of any use to such items in India's exports.

If one bears these ideas in mind, it can be easily seen that only a few items in India's exports to the United Kingdom normally require any special treatment. Especially when

the United Kingdom and other European countries are engaged in a huge armaments programme the need in those countries for Indian raw materials must be really great. It is evident, therefore, that, as war-clouds gather thick in Europe, the necessity of safeguarding and cultivating external markets for India's raw materials can only be less. This is an important bargaining point in India's favour which was overlooked.

*Some important articles examined:*—From the point of view of the above facts what do we find when we examine the concessions granted to India? The Commerce Member insisted that India has gained wherever preferences under the Ottawa Pact have been retained and wherever unscheduled items are brought over to the scheduled list. No doubt some exports *e.g.* goatskins and chrome leather have to be thankful for the agreement but the fact remains that the advantage secured is only based on an implied threat by the United Kingdom that duties on them may be raised at her will, and as she likes. Actually the advantage accruing to India from this kind of concession is very little.

Now a few important articles may be examined in the light of the present pact.

Chrome leather has enjoyed the full benefit of exemption from 30% duty levied upon the imports from foreign countries into the United Kingdom markets. The new pact secures the continuation of this advantage but guarantees it only to the extent that the duty on foreign leather will not be reduced lower than 15%. No one can say that fresh gains have been secured here.

Regarding goatskins it will be found that since 1932-33 the British market has been favourably expanding; from 49 lakhs the value of Indian exports has risen to 95 lakhs in 1937-38. The safeguarding of the United Kingdom market may be reckoned as an advantage to India's credit.

Tea accounts for 21 crores of India's exports to the United Kingdom in 1937-38. Under the international tea restriction scheme export quotas were fixed (in 1933 for India, Ceylon and the Netherlands). Even if India is not given the preference of 2d. per lb., it will be the British people who suffer in consequence. Further since the tea interests in India are predominantly British, the United Kingdom cannot be interested in cancelling the preferential treatment accorded. Preference for tea is, therefore, not a special achievement scored by India's bargainers.

Pig iron enjoys free entry in the United Kingdom. Since it is the most important raw material for the armament industries Britain would never choose to levy duties on it. It is clear, therefore, that free entry for pig iron is as much an advantage to the United Kingdom as it is for India.

In groundnuts the United Kingdom has been an expanding market of late. British empire countries are India's chief competitors and yet India's share in the United Kingdom's groundnut imports has increased from 63% in 1936 to 80% in 1938. In 1935 India exported only 90,000 tons. The figures for the subsequent years are as follows: 110,000; 138,000; 253,000. This shows that under the operation of the Ottawa Pact, the United Kingdom has become a valuable market and the retention of preference is of substantial value. The withdrawal of the drawback on groundnut oil strengthens the concession obtained.

Linseed is another instance where India has scored an advantage. Since 1932 our linseed has made much headway in the British market. That Argentine has fallen back is clearly shown by the fact that from April 1938 to February 1939 United Kingdom has imported 251,000 tons of linseed from India.

while Argentine could send only 12,000. The gain is undoubtedly important for linseed.

Regarding jute manufacture, the existing duty of 15% on cordage, cables ropes and twine and 20% on sacks and bags are retained. In view of the persistent clamour from the Dundee manufacturers, the retention of the existing status itself constitutes an advantage.

In 1932 Indian woollen carpets and rugs were allowed to enter the United Kingdom market freely, while the prevailing duty was 10%. In 1934 the duties were raised to 4 sh. 6 d. on a square yard of hand-knitted carpets, while 20% *ad valorem* duty was imposed on others. The new pact allows the 1934 modification to exist and to continue. India's chief competitors in carpets and rugs are Iran, Turkey, China and Belgium. It is possible to argue that the prices of Indian products are so high over those of other products that 20% preference cannot operate in India's favour and that fashion and taste determine the prospects of carpets and rugs and not mere changes in the tariff. But since competition is getting very keen in the item, the real potential value of the 20% cannot be neglected.

For tobacco, the United Kingdom is the single largest market and in recent years the

market has rapidly been growing. India's exports of tobacco since 1935-36 are as follows :—

1935—36	...	11,700,000 lbs.
1936—37	...	13,200,000 lbs.
1937—38	...	41,700,000 lbs.

While the great importance of the United Kingdom market is to be recognised, it should be remembered that tobacco from empire and non-empire countries has also made much headway in the United Kingdom. Yet in view of empire competition and the growth of the United Kingdom market, the intention of concession is a gain for India.

The existing preference on Indian rice *i.e.* 1d. per lb. has been reduced to  $\frac{2}{3}$ d. per lb. India's exports of rice to the United Kingdom are not considerable and after the separation of Burma, India's concern in rice exports to the United Kingdom is less. Indian rice which is sent to the United Kingdom is of superior quality and it has an established place in that market. Therefore the decrease in the preference might not disturb India's position.

India is not a wheat exporting country and in view of the enormous production and accumulation of stocks in the world India cannot even hope to become a wheat exporting

country. The abolition of preference on wheat in order to facilitate a trade agreement between the United Kingdom and the United States of America cannot affect us adversely.

RAW COTTON:—The pact gives concession to the British textiles in the Indian market in the form of reduction of import duties in return for a guarantee by the United Kingdom that she would take not less than 450,000 bales of Indian cotton. Provision is made for exporting 500,000 bales in the year ending December 1939, 5,50,000 in the year ending 31st December 1940 and 6,00,000 bales for every subsequent year. Penalties are attached if the United Kingdom fails to take the required quantity of cotton. The pact empowers India to raise the duties on British piece-goods if the United Kingdom fails to purchase the stipulated quantity of cotton. If the United Kingdom takes more than specified quantity, she gets a reward by way of reduction of duties.

The crux of the present agreement is undoubtedly the link between the export of raw cotton and the import of British piece-goods into India on the basis of sliding scales and quotas. That Indian cotton requires a guaranteed market is unquestionable. In view of the fall in the offtake of our cotton by

Japan it is indeed necessary to secure a safe market in the United Kingdom. But the present agreement has actually secured very little to the cotton grower. According to the note submitted by the unofficial advisers and also according to the calculation of the Indian Central Cotton Committee the United Kingdom can easily take  $6\frac{1}{2}$  lakhs to 10 lakhs of bales per year, while the pact stipulates of United Kingdom only 4 lakhs of bales which is less than the average offtake by the United Kingdom for the past three years. Further there is no provision for the disposal of that variety of Indian cotton which really requires a good market *viz.* Bengal, Oomras, Berar etc. The quality that the United Kingdom agrees to take under the present arrangement requires no special guarantee and can find a favourable market anywhere in the world. The anxiety to find markets for Oomras etc. still remains.

Taking India's exports as a whole the value of preferential items is nearly 42 crores. Of this nearly 32 crores worth of exports do not require any special treatment in the United Kingdom. At best only an insurance value can be claimed for them. The items which can be said to have benefited by the present pact are groundnut, the seeds group,

chrome leather, tobacco, woollen carpets and rugs.

The value of exports in benefited items can only be about 9 crores.

*Concessions to the United Kingdom.*

Turning to the concession given to the United Kingdom one should remember that the unofficial advisers rightly laid down certain fundamental principles to be adhered to in the conclusion of any trade agreement with the United Kingdom. They are as follows:—(1) The pact should not jeopardise any of India's domestic interests; (2) the preferences granted should be consistent with Indian tariff policy; (3) The agreement should not injure India's trade relations with foreign countries; (4) the revenue of the Government of India should be properly safeguarded,

Since India is under no restriction to keep the import duties at their present level, the concessions granted to the United Kingdom cannot be operating against India's revenue. We must see how far the other principles have been remembered by the framers of the pact.

TEXTILES:—The pact calls upon the Indian textile industry to sacrifice its growth

by guaranteeing a minimum market in India for British piece-goods in return for a minimum market in the United Kingdom for India's cotton. It should be noted, however, that, while the concession granted to raw cotton falls far below the legitimate demands of India, the benefits given away to the United Kingdom are very great. The reduction of import duties to  $17\frac{1}{2}$  per cent *ad valorem* on printed goods, 15% on grey goods and 15% on other goods is indeed a heavy blow to Indian aspirations and is not in any way compensated for by other advantages accruing to Indian agriculture. In 1936 the prevailing import duty on British goods was 25 per cent. It was then reduced to 20%; the present pact puts it at 15%. If the lowering of duties failed to help the United Kingdom in capturing the guaranteed portion of the Indian market, a further reduction of  $2\frac{1}{2}$ % is also promised. And hence the duty may come even to  $12\frac{1}{2}$ %. Thus within a brief period of three years, the protection granted to Indian cotton industry is sought to be nullified by drastic reduction of import duties, while, on the one hand, the minimum raw cotton to be taken by the United Kingdom is fixed much lower than the average for the past three years, the minimum yardage granted to Britain is nearly 150 to 250 million yards more than the present import. Recently the United

Kingdom has been fast losing the Indian market in textiles and so the high level of yardage allowed to the United Kingdom, especially in the absence of an enquiry by the tariff board, implies a serious menace to Indian cotton manufacture. Further, Indian mills have also been engaged in the manufacture of those varieties of cloth where the competition from the United Kingdom is keen. The present pact closes the door against the expansion of the manufacture of superior cloth in India.

If the link of raw cotton with piece-goods imports incorporated in the agreement is compared to the offtake of our cotton by Japan and our consumption of Japanese textiles it will be seen very clearly that Japan is made to take nearly thrice as much of our cotton as the United Kingdom for a given yardage of cotton manufactures allowed into our market.

NON-TEXTILE GROUPS:—A 7½% preference is granted to motor cars and accessories, motor cycles, chassis of omnibuses, motor vans and lorries. A 10% preference is given to certain classes of chemicals, drugs and medicines, cement, paints, colours, woollen carpets and rugs, shawls, iron and steel, barbed wire, copper manufactures, refrigerators,

sewing machines, electric appliances, wireless reception instruments, cycles, scientific and surgical instruments, loudspeakers, amplifiers etc. A preference of Rs. 3 to Rs. 4 per gallon is allowed on drugs and medicines containing spirit.

Though the number of heads in the preferential list has been reduced considerably, the position is still unsatisfactory from the point of view of Indian industrial aspirations. Preferences are withdrawn with regard to hardware, aluminium, brass, bronze, zinc and other non-ferrous metals, electrical appliances, some items under iron and steel etc. The withdrawal of appliances for the above leaves room for Indian industries to grow and thrive. But the preferences given to British chemicals, paints, cement, iron and steel, drugs and medicines are bound to militate against the already advancing Indian industries.

Regarding the effect of the pact on India's trade relations with non-empire countries, it can be said that greater bargaining power is secured than was allowed by the Ottawa Agreement. Now only 12% of the total imports come into the preferential field and the rest may be used for the conclusion of bilateral

trade agreements with foreign countries. In machinery, hardware, iron and steel and paper India can give room for Germany, while France may be negotiated with by giving room for her wine and spirits. The pact allows a trade agreement with Ceylon and safeguards India's trade with the British colonies, protectorates etc., though these are comparatively unimportant.

Another advantage worth mentioning is that the supplementary agreement to the Ottawa pact concluded in 1935 which laid down a number of restrictions on India's fiscal freedom is now cancelled. Hereafter British manufacturers cannot claim the right to appear before the Indian tariff board and demand a hearing.

**CONCLUSION :—**It is never easy in a trade pact to balance the value of the benefit accruing to the two sides concerned. A policy of give and take has to be pursued with patience and wisdom. The present agreement concedes enormously to British textiles and in return secures gain in the non-textile group of our imports. The Government's claim that Indian exports have gained phenomenally is obviously exaggerated. In fact, for a debtor country like India a trade agreement with a creditor

like the United Kingdom must procure a minimum favourable balance in merchandise trade. The present agreement is not calculated to obtain the required favourable balance with the United Kingdom. The real gain reaped by her is much greater than what is suggested by the lowering of the import duty on textiles, because she enjoys exclusive privileges in Indian economy, while India has no such advantages in the United Kingdom. The invisible exports of the United Kingdom to India by way of banking, insurance and shipping services are operating in the United Kingdom's favour. The crying need of India's shipping, banking and insurance interests is not met in the present pact.

But whatever the advantages and the handicaps arising out of the new pact, it should be admitted that the present pact is an improvement on the one it replaces. The Commerce Member has done his best under the limitations of India's Constitutional position. If one has to choose between accepting this agreement and allowing the Ottawa pact to continue for further years to come, the choice is simple. Things may be bad to-day but they were worse yesterday. This is the chief merit and justification of the Indo-British trade agreement of 1939.

**NEW INDO-BURMA TRADE AGREEMENT (1941):**—After the separation of Burma from India in April 1937, the trade relation between the two countries was regulated by the Indo-Burma Trade Regulation Order-in-Council. Finding that a Free Trade policy was unsuitable and also in order to increase the revenues under customs, the Government of Burma gave notice in April 1940 for the termination of the Trade Regulation Order with effect from April 1941. Thereafter negotiations between the representatives of the two countries began resulting in the New Indo-Burma Trade Agreement of 1941.

The provisions of the agreement fall under three heads: (1) Tariff treatment of Burmese goods on import into India, (2) Tariff treatment of goods on import into Burma, and (3) General. The following are the main provisions of the agreement taken from Burma Trade Journal, Vol. IV, No. 4, April, 1941:—

*Part I.* 1. "Goods of Burmese origin of the kinds which at present are duty free from whatever country imported will, so long as no duty is imposed on those kinds when imported from countries other than Burma, continue to be duty free. If in British India any duty is hereafter imposed on any such kind of goods

of Burmese origin, a corresponding duty may, subject to Part III, be imposed on the like kind of goods provided that in the case of broken rice (which was liable to duty on 31st March 1941 but became duty-free on the 1st April 1941), the Government of India undertake to accord a margin of preference of 10 per cent *ad valorem* or the amount of the duty whichever is less.

2. (a) In the case of articles which under the Indian Customs Tariff are at present subject only to a standard rate and that rate does not exceed 15 per cent *ad valorem* the Government of India undertake to accord a margin of preference equal to the existing rate.

(b) In the case of articles which under the Indian Customs Tariff are at present subject according to origin to either a standard or a preferential rate and those rates do not exceed 15 per cent and 10 per cent respectively the Government of India undertake to accord margins of preference equal to the existing standard and preferential rates.

3. MATCHES, MOTOR SPIRIT, SALT, SILVER AND SUGAR :—The Government of India undertake that the duties on these goods shall not exceed the rates of excise duty for the

time being leviable on similar goods produced or manufactured in British India.

4. OTHER ARTICLES SUBJECT TO CENTRAL EXCISE DUTY:—Notwithstanding anything contained herein no article which in British India is for the time being subject to a duty of excise shall be entitled on import from Burma to be subjected to a rate of duty less than the rate of excise duty for the time being in force.

5. KEROSENE:—The Government of India undertake (i) that the margin of preference as against foreign kerosene shall be 9 pies per Imperial gallon, and (ii) that the rate of customs duty shall not exceed the rate of excise duty for the time being in force in India on domestically produced kerosene: provided that during the period of the present war, the Government of India shall be at liberty to levy duties on kerosene from Burma equal to the duties applicable to kerosene imported from other countries.

EXPLANATION:—For the purposes of this paragraph and of other paragraphs in which the phrase “period of war” is referred to, the period of war shall be interpreted as meaning the period elapsing between the date of

signature of this document and the date of signature of a definitive Treaty of Peace with Germany or one year after the conclusion of a formal armistice with that country, whichever is earlier.

6. TEA :—The Government of India undertake to accord a specific margin of preference of one anna per pound against the preferential rate and of three annas per pound against the standard rate.

7. (a) In the case of articles (other than cigarettes and tobacco, manufactured, and articles specified in paragraphs 1, 3 and 5) which under the Indian Customs Tariff are at present subject only to a standard rate and that rate exceeds 15 per cent *ad valorem* the Government of India undertake to accord a margin of preference of 15 per cent.

(b) In the case of articles which under the Indian Customs Tariff are at present subject according to origin to either a standard or a preferential rate and those rates exceed 15 per cent and 10 per cent respectively the Government of India undertake to accord a margin of preference of 15 per cent as compared with the standard rate, or 10 per cent as compared with the preferential rate, whichever is greater.

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8. The Government of India undertake to accord free entry to the following articles:—(i) Dyeing and tanning substances; (ii) Gums, resins and lac; (iii) Gums, Arabic, Benjamin (res and cowrie) and Dammer (including unrefined batu) and resin; (iv) Wood and Timber; (v) Furniture and cabinetware; (vi) Tea chests and parts and fittings thereof; (vii) Cotton, raw; (viii) Lacquered ware; (ix) Iron or steel, old; (x) Iron or steel; (xi) Enamelled ironware and (xii) Copper, wrought, and manufactures of copper; (xiii) Copper, scrap (xiv) German silver including nickel silver; (xv) Aluminium; (xvi) Unwrought ingots, blocks and bars of aluminium; (xvii) Lead, wrought (xviii) Lead sheets for tea chests; (xix) Zinc or spelter, wrought or manufactured, not otherwise specified; (xx) Tin, block; (xxi) Brass, bronze and similar alloys, wrought, and manufactures thereof not otherwise specified and (xxii) All sorts of metals other than iron and steel.

9. The Government of India undertake that the duty on the following goods shall not exceed the rate specified against each:—

<i>Description</i>	<i>Rate per cent.</i>
Potatoes and onions	... 5
Coffee	... 10

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<i>Description</i>	<i>Rate per cent</i>
The following spices whether ground or unground, namely cardamoms, cassia, cinnamon, cloves, nutmegs and pepper	... 10
Betelnuts	... 20
Cutch and gambier, all sorts	... 5
Cigars	... 10
Tobacco, unmanufactured	One anna per pound.

10. For the purpose of according margins of preference where an existing duty is not simply *ad valorem*, that is to say, when the duty is either specific or composite, a single *ad valorem* or specific duty may be fixed from time to time in consultation with the Government of Burma. Such duty shall be so calculated as to provide the prescribed margin having regard to the average value of goods of the like kind imported into India from Burma during the previous financial year.

*Part II.* 1. FREE LIST:—Goods of Indian origin of the kinds which at present are duty free from whatever country imported will, so long as no duty is imposed on those kinds when imported from countries other than India, continue to be duty free. If in Burma any duty is hereafter imposed on any such

kind of goods a corresponding duty may, subject to Part III, be imposed on the like kind of goods of Indian origin.

2. COTTON TWIST AND YARN:—The Government of Burma undertake to maintain the existing margins of preference, except in the case of mercerized yarn on which the Government of Burma do not undertake to accord any margin of preference.

3. (a) In the case of articles (other than cotton twist and yarn) which under the Burma Customs Tariff are at present subject only to a standard rate and that rate does not exceed 15 per cent *ad valorem* the Government of Burma undertake to accord a margin of preference equal to the existing rate.

(b) In the case of articles which under the Burma Customs Tariff are at present subject according to origin to either a standard or a preferential rate and those rates do not exceed 15 per cent and 10 per cent respectively the Government of Burma undertake to accord margins of preference equal to the existing standard and preferential rates.

4. COTTON PIECE-GOODS:—The Government of Burma undertake (i) to accord a margin of preference of  $7\frac{1}{2}$  per cent to Indian

cotton piece-goods over corresponding goods of United Kingdom manufacture; (ii) not to levy a higher duty than 10 per cent on Indian cotton piece-goods; and (iii) not to increase the existing quota of Japanese cotton piece-goods which may be imported into Burma.

EXPLANATION:—The expression “cotton piece-goods” means fabrics which at the date of the signature of the Agreement are assessable to duty on import into Burma under item 48 (3), item 48 (7) or item 48 (9) of the First Schedule to the Burma Tariff Act, 1934.

5. SUGAR:—The Government of Burma undertake to carry out any measures which may be necessary to give effect to their declared intention of satisfying the demand for sugar in Burma (other than classes of sugar specifically excluded by agreement) in excess of local production, by means of imports from India.

6. SALT:—The Government of Burma undertake to accord a margin of preference equal to 50 per cent of the additional import duty leviable on salt imported from countries other than India or 8 annas per 100 viss, whichever is the greater.

7. TEA:—The Government of Burma undertake to accord a specific margin of

preference of one anna per pound against the preferential rate and of three annas per pound against the standard rate.

8. MANUFACTURED TOBACCO:— The Government of Burma undertake that the duty on *bidis* shall not exceed 80 per cent of the lowest rate of duty leviable on cigarettes imported from India.

9. MATCHES, MOTOR SPIRIT, SILVER AND KEROSENE:—The Government of Burma undertake that the duties on these goods shall not exceed the rates of excise duty for the time being leviable on similar goods produced or manufactured in Burma.

10. OTHER ARTICLES SUBJECT TO EXCISE DUTY:—Notwithstanding anything contained herein no article which in Burma is for the time being subject to a duty of excise shall be entitled on import from India to be subjected to a rate of duty less than the rate of excise duty for the time being in force.

11. (a) In the case of articles (other than cigarettes, iron and steel, and articles specified in paragraphs 1, 2 and 4 to 9) which under the Burma Customs Tariff are at present subject only to a standard rate and that rate exceeds 15 per cent *ad valorem* the Government

of Burma undertake to accord a margin of preference of 15 per cent.

(b) In the case of articles which under the Burma Customs Tariff are at present subject according to origin to either a standard or a preferential rate and those rates exceed 15 per cent and 10 per cent respectively the Government of Burma undertake to accord a margin of preference of 15 per cent as compared with the standard rate or 10 per cent as compared with the preferential rate, whichever is greater.

12. The Government of Burma undertake to accord free entry in respect of the following articles:—(i) Fish, canned; (ii) Fruit juices; (iii) Fruits and Vegetables, canned or bottled; (iv) Lead pencils; (v) Paper; (vi) Printing paper; (vii) Printing paper; (viii) Writing paper; (ix) Coir fibre, coir yarn and coir mats and matting; (x) Glass and glassware; (xi) Glass globes and chimneys for lamps and lanterns; (xii) Glass bangles, glass beads and false pearls; (xiii) Certain electrical instruments; (xiv) Certain electrical instruments and (xv) Instruments, apparatus and appliances other than electrical.

13. The Government of Burma undertake that the duty on the following goods shall

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not exceed 5 per cent:—(i) Potatoes and Onions; (ii) Coconuts and (iii) Chemicals; Drugs and Medicines; (iv) Magnesium chloride; (v) Certain chemicals; (vi) Certain chemicals; (vii) Certain chemicals, Drugs and Medicines; (viii) Toilet requisites; (ix) Paints; (x) Paints; (xi) Woollen yarn; (xii) Woollen yarn, (xiii) Blankets and Rugs and (xiv) Woollen Hoisery.

14. The Government of Burma undertake that the duty on the following goods shall not exceed 10 per cent:—(i) Coffee, (ii) Certain spices; (iii) Cigars; (iv) Soap, toilet; (v) Woollen carpets; (vi) Boots and shoes; and (vii) Boots and shoes.

15. The Government of Burma undertake that the duty on the following goods shall not exceed the rate specified against each:—

<i>Description</i>	<i>Rates</i>
Betelnuts	20 per cent.
Ale and Bear	Rate of excise duty for the time being in force.
Drugs and medicines containing spirit.	Double the rate of excise duty for the time being in force.
Tobacco, unmanufactured	1 anna per pound.

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<i>Description</i>	<i>Rates</i>
Cinematograph films, exposed	15 per cent (with separate tariff value for Indian films).
Silk fabrics	15 per cent.
Artificial silk fabrics	15 per cent.
Mixture fabrics	15 per cent.
Cotton knitted fabrics	15 per cent.
Electric lighting bulbs	15 per cent.

16. Notwithstanding anything to the contrary in the foregoing paragraphs, the Government of Burma shall during the period of the war be at liberty to impose a surcharge of 5 per cent *ad valorem* on any class of goods imported from India, provided that a surcharge equal to, or greater than, this amount is also imposed on the same class of goods imported from all other countries.

17. For the purpose of according margins of preference where an existing duty is not simply *ad valorem*, that is to say, when the duty is either specific or composite, a single *ad valorem* or specific duty may be fixed from time to time in consultation with the Government of India. Such duty shall be so calculated as to provide the prescribed margin having regard to the average value of goods of the

like kind imported into Burma from India during the previous financial year.

*Part III.* 1. Subject to the provisions of the two preceding parts, the contracting parties undertake to accord each other Most Favoured Empire Nation Treatment.

2. Provision shall be made in the Agreement to the effect that in the event of circumstances arising which, in the judgment of the Government of India or of the Government of Burma, as the case may be, necessitate a variation in the terms of the Agreement, the proposal to vary its terms shall be the subject of consultation between the two Governments.

3. The margins of preference and other advantages referred to in Parts I and II shall apply only to goods of Burmese and Indian origin, respectively. Definitions of what constitute goods of Burmese and Indian origin respectively and ancillary questions (*e.g.*, certificates of origin) shall be determined by the parties in consultation.

4. The following matters to be covered by exchange of notes:—

(a) The Government of Burma undertake not to impose an export duty on timber export-

ed to India during the period of the war, and they take note of the declaration by the Government of India that if at any time after the expiry of the above mentioned period the Government of Burma impose an export duty the Government of India will hold themselves free to withdraw the concession of guaranteed free entry.

(b) The Government of Burma undertake to accord to Indian goods in transit of Burma treatment not less favourable than that accorded to goods of any other part of the British Empire.

5. The Agreement shall be terminable at six months notice by either side."

This new trade agreement offers mutual preference and it also benefits the Burmese farmer, the Indian consumer of rice and the Indian manufacturer. The Pact is intended to stabilize, and if possible increase, the exchange of goods between the two countries.

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## CHAPTER IX

### *Commercial Organisation and Trade Commissioners.*

**C**OMMERCE may, in a general sense, be taken to mean exchange of commodities on a large scale over a wide area. It covers all the links between the source of production and the final consumer. In this chapter on commercial organisation the specialised economic services such as banking, broking, insurance and transport are excluded. Here we confine our attention to the organisation of merchants for the promotion of trade. In other words, we shall consider the organisation of the merchant community who do not produce goods nor consume them, but who are instrumental in the distribution of goods and in the creation of values.

**FUNCTIONS OF A CHAMBER OF COMMERCE:**—The merchants of a country have always found it profitable to form associations on a voluntary basis for the formation of

common policies regarding the promotion of trade. In England, for example, after 1768, Chambers of Commerce sprang up for safeguarding their interests and expanding their operations. In some European countries chambers of commerce developed under the aegis of Government patronage and help. In France Traders' Organisations enjoyed even an official status with powers of managing public utility concerns. The functions of a chamber of commerce are many and varied. The chamber offers the invaluable service of providing information regarding the trend of tariffs, commercial laws and regulations in every one of the foreign countries with which trade is carried on. Full and relevant statistics regarding prices, quantity of articles sold, quality of the competing articles, etc., are brought up to date and placed at the disposal of the members; it also arranges to exhibit in foreign countries the peculiar products of the country and organises publicity in order to promote sales. The chamber also gives general advice to the members regarding the business methods to be followed in foreign and domestic trade. Legal advice is given to the members regarding contract conditions, shipment of goods and also matters connected with foreign administration. The chamber further comes forward to guide the merchants in recovering debts, in

settling disputes and in contesting issues of general importance to marketing. Arbitration and settlement of disputes between members form an important service performed by the chamber. It also serves as a common administrative machinery issuing the necessary documents for foreign trade like the certificates of origin. It focusses the attention of the government and the public on the urgent requirements of merchants and helps to formulate a suitable national economic policy. It makes representations to the government regarding internal administration, foreign regulations and other matters of general commercial interest. Lastly, the chamber tries to function as the guardian of the integrity and commercial morality of the merchants.

**GOVERNMENT'S ROLE:—**It can be seen easily that private organisations like the chambers of commerce can function effectively only with the full co-operation of the Government. In the United States of America the Department of Commerce supplies the general mercantile community with exhaustive statistical publications. The United States Bureau of foreign and domestic commerce which is a branch of the Department of Overseas Trade of the U.S.A. has got nearly 45 attaches and trade commissioners abroad who supply the

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Bureau with full and relevant statistics and information regarding foreign markets, prices, legislation, consumers change of tastes, specimens etc.

The Government of Great Britain have done most commendable service in the interests of British Commerce. The British Board of Trade obtains information as to the tariffs of all foreign countries and supplies adequate statistics. The Department of Overseas Trade was founded in 1917.

DEPARTMENT OF OVERSEAS TRADE:—It is a joint department of the Board of Trade and the Foreign Office. It is now doing the work which was formerly the responsibility of the Commercial Intelligence Department of the Board of Trade and the work of the Foreign Trade Department of the Foreign Office. The Department of Overseas Trade collects information and figures through consuls, trade commissioners, and commercial correspondents stationed at numerous cities in the world. Foreign official publications, empire publications and British publications are placed at the disposal of the commercial community through this department. The department wields wide influence and power. It manages the British Industries Fair and puts into

operation the exports credit scheme intended to offer substantial encouragement to British exports. It plays a most important part in all the negotiations conducted by the U. K. government for the conclusion of commercial treaties.

Within the empire there are British Trade Commissioners in Canada, Australia, New Zealand, India, South Africa, British Indies, British East Africa and the Irish Free State. These commissioners are assisted by Imperial Trade Correspondents who are appointed even in certain centres where trade commissioners could not be stationed. In foreign countries, the United Kingdom Government have maintained a Commercial Diplomatic Service attached to the British Diplomatic Mission. Consular Officers are also appointed and charged with the responsibility of supplying commercial intelligence.

**FUNCTIONS OF A TYPICAL BRITISH TRADE COMMISSIONER:**—Among the chief functions of British commercial diplomatic officers and the Trade Commissioners the following are the most important:—(1) supplying statistics of imports and exports; (2) collecting particulars regarding shipping and inland transport facilities in foreign countries;

(3) finding out the sources of supply of raw materials and collecting specimens of goods not manufactured in the country ; (4) gathering information concerning foreign contracts open to tender ; (5) preparing lists of importers, exporters and agents in foreign countries ; (6) suggesting the most suitable marketing methods ; (7) instructing British traders regarding credit facilities and conditions of competition in overseas markets etc. ; (8) submitting full details regarding the tariffs, regulations and legislation connected with trade marks. These commercial officers submit periodical reports on the economic and financial conditions of the countries where they are stationed and express their opinion regarding future developments of British commerce in that particular area. The reports received from these officers are published in official publications like the British Board of Trade Journal. In fact every single firm in the United Kingdom has facilities of obtaining even confidential information as to how best it can expand its foreign markets.

THE OVERSEAS TRADE DEVELOPMENT COUNCIL :—Since the beginning of the Trade Depression new critical problems have cropped up in international trade which require special study through an expert body. The

Overseas Trade Development Council was established in April 1930 to examine the problems of British Overseas trade and suggest proper solutions. This council represents close official and non-official co-operation in the common endeavour of pulling England out of the depression. Financial experts from London are included in this council which is presided over by the Secretary of the Overseas Trade Department. The Council, representing British commercial and industrial interests, could successfully send economic missions to foreign countries in order to review and study the developments of overseas markets. British Trade delegations which were sent to South Africa, South America, India, the Far East and Scandinavia owe their inspirations to that council. The comprehensive reports which these economic missions submitted for the use of the British commercial public were greatly responsible for the quick revision of British economic foreign policy in the best interests of British commerce. There are also some important imperial organisations for the promotion of empire trade. The Imperial Shipping Committee established in 1920, the Imperial Economic Committee established in 1925, and the Empire Marketing Board are working in full co-operation for the benefit of the British merchants and producers. America,

France, Germany, Japan and other progressive countries have followed the lead of the United Kingdom in extending all possible help to commercial communities for the expansion of overseas trade.

**ORGANISATION OF COMMERCIAL INTELLIGENCE IN INDIA:—**But India presents an unsatisfactory picture. The organisation of commercial intelligence is indeed deficient in this country. In spite of the fact that the Commercial Intelligence Department was organised in 1905, the Indian commercial community felt the utter inadequacy of the distribution of commercial information. That department was re-organised in 1922 and, in recent years, there have been attempts at forming intimate contacts between the Government and the commercial public. Statistical publications are now improving gradually and the "Indian Trade Journal," "Review of Trade of India" and other publications are greatly valued by the general public. The government have also appointed a few Trade Commissioners in important places like London, Milan, Mombasa, Hamburg, Alexandria, New York, Tokyo and Sydney. But in regard to the appointment of more trade commissioners, the Government of India pleaded financial stringency. As long ago as 1928, the Indian Trade

Mission suggested specific places where Government of India trade agents were essential. But the delay of the Government resulted in disastrous consequences especially during the years of trade depression. Indian commercial bodies have numerous examples to show how Indian articles were easily displaced by foreign ones for want of economic diplomats on the spot. In these days of keen competition, neglect is fraught with dangerous consequences and foreign markets have to be constantly safeguarded by clever and well-informed trade commissioners and should not be left to the mercies of adverse conditions and fluctuating events of the future. The disintegration of world trade has resulted in new non-tariff trade control devices like quotas, exchange control, import licenses etc. Numerous bilateral pacts have come into being forcing international trade into treaty channels. The days of free trade and most-favoured nation clauses are over. For the very existence of foreign trade every country has had to arm itself with economic powers and bargain with the rest for stability and safety in commerce. The necessity for trade commissioners is as great for raw materials and foodstuffs as it is for the expansion of manufactures. Trade commissioners, particularly during the recent slump, had a vital role to play, not so much in the

extension of overseas markets as in the sheer defence of the status quo position. It is not possible to secure trade with any degree of permanence unless a responsible officer acts with foresight, intelligence and knowledge. Things have to be done immediately on the spot. Otherwise, the loss probably can never be made good. An Australian minister recently said: "The day has long passed when we as a nation can afford to sit down and wait for business. We must be on the spot, or find other nations beating us."

With regard to non-official commercial organisations in this country, the lead was given by the European merchants who formed chambers of commerce in Calcutta, Bombay, Madras, Rangoon, Karachi and other important places. All these organisations were federated in the Associated Chambers of Commerce. Following the European example, Indian merchants also formed commercial organisations in different parts of India. The chief short-coming of Indian organisations is want of unity. Personal differences, communal points of view and provincial jealousies have crept into the working of the organisations. There is also a feeling that the Government of India give great weight to the opinions of the European Chambers of Commerce in India. It

is to be hoped that the Government will change its attitude towards Indian aspirations and that ample opportunities would be given to Indian industrialists and traders to form effective organisations to be in intimate contact with the Government and to promote Indian foreign and inland trade in the best interests of the nation.

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## CHAPTER X

### *Conclusion.*

FUTURE POLICY IN THE LIGHT OF RECENT DEVELOPMENTS IN MODERN COMMERCIAL POLICY :—Since 1929 international trade has presented three most important developments, *viz.*, depression, partial recovery which followed it and bilateral regulation of trade which is the latest feature of the commercial policies of the leading countries of the world. India's trade, both external and internal, played a defensive role suffering the effects of world trends without any active economic plan to stabilise its course. While almost every country has tried to minimise the havoc of depression and accelerate the pace of recovery, very little constructive work has been achieved in India. Since 1934-35 a very large number of bilateral commercial agreements have been concluded between nations and this has resulted in a great reduction of the triangularity of international payments. Equalisation of merchandise trade as well as other financial claims has been looming large in the eyes of those

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who regulated foreign trade along treaty channels. Germany, the United Kingdom, U.S.A., Italy, France and other progressive countries reorganised their internal trade and sought to wrench equivalent reciprocal concessions from foreign countries and did not hesitate to balance imports with exports. Freedom and absence of discrimination have yielded place to special favours, exclusive mutual concessions and regional commercial unions. Tariff was not the only weapon of trade regulation; in fact it has lost its supreme importance in recent years. Quotas, exchange allocations, clearing agreements, embargoes, government monopolies etc., have been forged as new powerful instruments by which individual nations seek to conclude satisfactory bilateral commercial agreements. This move towards bilateral trade has radically changed not only the organisation of international trade but also the nature and the extent of that trade. The intimate and automatic links which connected the world broke to pieces, and everywhere nationalism, to an excessive degree, dominated trade currents.

This latest development in international trade has not failed to influence Indian prospects. Already after 1933 when India joined the British preferential group foreign countries

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began to retaliate against Indian exports. Since bilateralism involved "buying only from those who buy from us," Indian goods had to experience severe decline due to discrimination by the countries which adopted bilateral commercial policies. The time had come even in 1935 when India was forced to think deeply as to how best she should formulate her trade policy in view of the developments in world commerce. The drastic fall in India's exports, the rapid disappearance of her usual favourable balance of trade, and the example set up by the United Kingdom and U.S.A. have all strengthened the clamour for bilateral commercial agreements even in this country.

Widely differing views were expressed regarding the most suitable commercial policy for India. On the one side, one section of economists and statesmen advised a return to free trade and worked for international economic co-operation. Another group of economists pointed out that during these chaotic days of the depression every nation should take care of itself before it can think of facilitating world recovery. They advocated rigorous government regulations of commerce in order to keep up the standard of living of the people at a satisfactory level. They supported the ideal of economic restrictionism. To them

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foreign trade was only of secondary importance, whereas every step should be taken for the increase of internal production and trade. They advocated the conclusion of bilateral commercial agreements with important foreign countries so that exports could be increased and external trade stabilised. Thus, while one view urged a policy of leaving the state of affairs free and allowing world economic factors to operate towards recovery, the other view refused to wait for external factors and wanted an active regimentation of economic activities in the country. The Government of India expressed the view that we should remain passive instead of adding new obstacles to world economic recovery. They pointed out that India should not entangle herself in reciprocal treaties and other commitments.

Advocates of bilateral treaties put forward several important arguments. Since India's favourable balance of trade has dwindled seriously in recent years, bilateral agreements with important countries must be concluded so that India's financial obligations may be safely discharged without impairing her economy. An export drive is an urgent necessity if Indian obligations to the United Kingdom are to be met. We must try to secure, it was argued, favourable balance of merchandise trade with

non-empire countries so that we might pay off our debts to the United Kingdom. Secondly, since a major part of the world trade had already begun to flow along bilateral channels if India remained inactive she would seriously suffer from foreigners' inroads into her domestic markets. Thirdly, it was pointed out that Germany, the United Kingdom, U.S.A. and other countries stood to gain by bilateral negotiations and that even India gained by her trade agreements with the United Kingdom and Japan. It was shown that India had already adopted the bilateral policy and that the need should only be extended so that a large number of countries might be covered under the scheme. Fourthly, advocates of the bilateral trade policy believe that commercial treaties can be effectively used for promoting industrialisation in India.

The view against bilateralism seems to be equally strong. Reciprocal balancing of exports and imports restricts foreign trade and strangles the triangular method of payments. It would heavily block the way to recovery. Secondly, bilateral treaties would greatly reduce the tariff autonomy of India. Thirdly, the peculiar features of India's foreign trade do not necessitate bilateralism. India usually enjoys a favourable trade balance and though,

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during the initial years of the depression, this favourable balance declined, by the year 1936-37 the position had developed satisfactorily. European countries adopted bilateral treaties as urgent defence measures to stop the perilous decline in their export trades, whereas India's foreign trade is not in such a hopeless condition. Therefore there is no necessity in India for reciprocal agreements. Anyway, even if there had been a real necessity for bilateral treaties during the period 1932-36, there was no necessity afterwards. Further, normally India enjoys a favourable balance with non-empire countries. Obviously, a country with a favourable merchandise balance cannot bargain profitably. India's capacity to grant concessions to foreign imports is limited and hence no successful pact can be negotiated. By adopting the restrictive weapon of bilateralism, she would only be making the situation worse. Her bilateral agreements with the United Kingdom and Japan cannot be taken as examples for supporting a full blown policy of bilateralism, because her trade relations with the United Kingdom and Japan are to a great extent complementary in character and her relations with them are very distinctive and peculiar. After all, India's exports consist largely of agricultural products and hence her export

trade must be broad-based and not restricted by pacts. Fourthly, India cannot negotiate further bilateral pacts because of the excessive commitments under the trade agreements with the United Kingdom and Japan. Unless India radically modifies her imperial preference pacts and arms herself with all the necessary fiscal powers to negotiate trade treaties, she will not be able to achieve her ends. Lack of fiscal autonomy makes a comprehensive national economic policy impossible, and if, with these cramping limitations, India tried to negotiate treaties, she would only fail miserably. The absence of reciprocity in the Indo-British and Indo-Japanese trade agreements amply demonstrates the practical difficulties of adopting a satisfactory bilateral policy.

The best course open to India is to adopt a vigorous policy of industrialisation behind adequate tariff walls. She should try to modify the imperial preference agreement with the United Kingdom to suit her own industrial interests. Her goal should be to regulate foreign trade mainly with a view to accelerating internal economic development. She should try to divert the raw materials, which she now exports to foreign countries to her own internal industrial activity. Her main object should be the establishment of a

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balanced economy and she must divert her attention to the supreme problem of raising the purchasing power of her toiling millions. This is not, of course, to say that there is no more scope for increasing India's foreign trade. All avenues must be fully exploited to see if, by modifying the Indo-British agreement and by lowering the tariff, we can successfully negotiate trade pacts with some countries (for example, U.S.A.) so that both our exports and industrial activity may benefit at the same time. Anyhow, one word may be uttered without fear of contradiction. The Government of India should adopt a more active policy and come forward with a comprehensive scheme to realise the immediate objective of pulling India out of the meshes of the depression. A policy of masterly inactivity would fail to face the ever-increasing acuteness of trade problems. Government should not hesitate to come out with useful plans instead of waiting for "something to turn up."

Since the beginning of this war problems of trade policy have assumed a different significance. The task now is not how to develop exports or to arrange convenient methods of paying off India's external debts but how best the Allied Countries could mobilise their economic resources for the prosecution of this

war. The moment has come when exports and imports have to be completely regulated with a view to accelerating war effort. When the hostilities began in Europe, India naturally began to seek fresh markets, particularly in Eastern countries like China, Japan, Ceylon and Australia. Attempts were also made to explore the possibilities of developing trade relations with South Africa, Iran and the U.S.A. It was shown that the trade between the Eastern countries and India was complementary in character and hence there was large room for increasing both exports and imports. For instance, India could take advantage of the war in Europe and try to capture a large share of the textile markets of Australia. It has been very well realised that the excessive dependence on European markets, particularly on the United Kingdom, should be reduced. Meek-Gregory mission studied the possibilities of increasing Indo-American trade but came to the conclusion that the scope was very limited owing to special circumstances prevailing there. With the entry of Japan into this world conflict, many of India's hopes were shattered. It is all a problem of defence now. Foreign trade has almost ceased to exist. Our energies should be diverted to increasing national production for national strength and prosperity.

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# TABLES

(CHAPTERS III, IV, VII and VIII)

TABLE I

## Share of Principal Countries

(Percentage of

	Pre-War Average	War Average	Post-war Average
<b>I. British Empire.</b>			
United Kingdom ...	62·8	56·5	57·6
Ceylon ...	·5	1·1	·7
St. Settlements ...	2·1	3·0	1·9
Australia ...	·7	·8	1·3
Hongkong ...	·7	·9	·7
Total (including other British) ...	69·7	65·4	65·2
<b>II. Foreign countries.</b>			
Japan ...	2·5	10·4	6·9
United States ...	3·1	7·0	8·5
Java ...	6·4	7·8	6·8
France ...	1·5	1·8	·9
Italy ...	1·0	1·2	1·0
China ...	1·1	1·3	1·2
Persia ...	·4	·6	·7
Russia ...	·1	·1	·05
Netherlands ...	·9	·6	·9
Belgium ...	1·9	·3	1·8
Germany *	6·4	·7	2·8
Austria ...	2·2	·2	·2
Total (including other)	30·3	34·6	34·8

\* Prior to 1921-22 represents Austria Hungary—

in Imports to India.

total imports)

1924-25	1925-26	1926-27	1927-28	1928-29	1929-30
54.1	51.4	47.8	47.7	44.7	42.8
.6	.7	.6	.8	.8	.7
2.0	2.5	2.3	2.5	2.0	2.6
.3	.6	.8	.7	3.3	2.3
.5	.4	.4	.5	.3	.3
62.2	59.1	54.9	54.6	54.1	51.7
6.9	8.0	7.1	7.2	7.0	9.8
5.7	6.7	7.9	8.2	6.9	7.3
6.3	6.2	6.2	5.9	6.5	5.7
1.0	1.4	1.5	1.7	1.9	1.9
1.6	1.9	2.7	2.7	2.9	2.8
1.1	1.2	1.4	1.8	1.7	1.7
.9	.9	.9	1.2	1.5	1.5
—	.03	.2	.2	.3	.3
1.2	1.6	2.0	1.9	1.9	1.8
2.7	2.7	2.9	2.0	2.8	2.8
6.3	5.9	7.3	6.1	6.3	6.6
.3	.4	.5	.5	.6	.5
37.8	40.9	45.1	45.4	45.9	48.3

TABLE I (A)

(A) Imports in crores of Rs.

	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
1. U. K.	113	103	61	45	49	48	54	52
2. Other Br. possessions	24	21	15	12	10	9	11	13
3. Total Br. Empire	137	124	76	57	59	57	65	65
4. Europe	51	49	36	28	29	25	25	27
5. U.S.A.	17	18	15	13	11	7	8	9
6. Japan	18	28	15	13	20	16	21	22
7. Other foreign countries	30	26	23	15	13	10	13	11
8. Total foreign countries	116	117	89	59	73	58	67	69
9. Grand total	253	241	165	126	132	115	132	134

TABLE I (B)

(B) Percentage share of important countries.

1. U.K.	24.1	21.8	23.8	28.2	36.8	41.7	40.6	38.8
2. Germany	9.6	8.4	6.4	6.3	7.8	7.7	7.6	9.2
3. Java	1.1	1.3	1.2	1.1	2.8	2.1	1.4	1.3
4. Japan	10.2	10.2	10.6	8.7	15.4	14.2	15.7	16.3
5. U.S.A.	11.8	11.6	9.4	8.9	8.5	6.2	5.4	6.7
6. Belgium	4.0	3.8	3.4	2.8	2.6	2.3	1.6	1.8
7. Austria Hungary	—	—	—	—	—	0.5	0.5	0.5
8. Str. Settlements	2.4	2.5	2.8	3.0	2.1	2.6	2.3	2.7
9. Persia, Arabia, Iraq, Asiatic Turkey.	2.1	2.1	2.2	2.1	2.0	1.9	2.5	2.5
10. France	5.3	5.3	4.9	4.8	1.5	1.3	1.2	1.0
11. Italy	4.5	3.6	3.5	3.4	3.0	2.5	2.3	1.5
12. China	2.8	4.1	5.9	4.9	2.2	1.9	1.6	1.4
13. Kenya, Zanzibar	0.5	0.5	0.5	0.5	1.7	2.1	2.4	2.6
14. Ceylon	4.2	4.2	5.0	5.0	1.3	1.1	1.0	1.1
15. Central S. Africa	3.3	3.2	2.3	1.5	—	—	—	—
16. Netherlands	2.6	2.8	3.4	3.0	1.3	1.6	1.0	1.0
17. Australia	2.2	1.8	2.0	1.8	0.8	0.9	0.7	0.9

TABLE II

**Balance of India's Merchandise Trade: (Total and Chief Countries)**  
(Millions of Rupees :—Exports in excess ;—Imports in excess)

	Pre-War Average	War Average	1925-1926	1926-1927	1927-1928	1928-1929
United Kingdom	- 353	- 144	- 343	- 440	- 375	- 409
Ceylon	75	79	135	135	140	122
St. Settlement	46	18	45	37	34	28
Australia	21	39	62	61	47	11
United States	119	164	251	162	163	226
Japan	133	88	397	248	113	170
France	126	82	180	104	43	131
Italy	57	71	150	53	63	79
China	71	27	129	80	2	52
Java	65	90	92	114	123	127
Netherlands	21	5	40	13	33	40
Belgium	92	7	63	20	35	113 -
Germany	130	10	136	35	171	166
Austria	46	7	6	8	10	13
Total all countries	783	763	1,611	794	788	847

# TABLE III

DIRECTION OF IMPORTANT ITEMS OF INDIA'S IMPORTS.

## (1) Cotton Manufactures (% share)

Country	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
U.K.	63.5	58.0	51.6	53.0	58.8	59.7	51.0
Japan	...	30.3	35.5	38.0	35.0	32.4	41.6
China	26.5	4.3	5.3	3.3	3.8	4.4	4.5
Italy	2.4	1.5	1.7	0.8	0.1	—	—
U.S.A.	1.9	1.0	1.6	1.3	1.0	—	—
Total lakhs Rs. ...	59.49	25.26	19.15	26.83	17.74	21.76	21.15

## (2) Machinery

U.K.	75.1	74.7	70.8	74.1	68.4	72.4	67.7
U.S.A.	...	11.4	11.1	7.7	6.3	9.1	8.5
Germany	9.6	8.2	10.3	9.3	10.3	10.0	12.0
Belgium	9.5	1.0	2.5	3.7	3.4	1.3	2.0
Japan	1.0	0.3	0.4	0.4	0.7	0.9	1.3
Total lakhs Rs. ...	18.22	14.35	10.92	10.54	12.77	12.64	13.68

**TABLE III (Contd.)** (3) **Iron and Steel. %**

Country	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
U.K.	59.2	52.3	53.8	51.1	57.5	57.4	56.4
U.S.A.	3.1	4.6	2.2	1.2	1.1	1.3	1.0
Germany	5.7	6.9	7.3	8.6	7.6	8.5	13.7
Belgium	23.5	24.9	24.2	23.2	15.2	13.7	13.8
Japan	—	—	0.7	2.6	5.0	5.3	6.0
France and Luxemburg	5.0	4.1	5.4	4.8	5.0	4.4	3.3
Total lakhs Rs. ...	20.24	10.87	6.32	5.30	5.53	6.38	72.2

(4) **Motor cars, motor cycles etc. %**

U.K.	20.8	23.7	31.1	47.6	48.3	40.5	41.7
U.S.A.	59.1	48.3	48.4	36.5	30.4	41.3	35.5
Germany	1.1	1.5	2.8	3.0	1.6	1.5	3.1
France	1.7	1.8	2.4	1.2	0.6	—	—
Italy	3.8	4.5	4.8	3.2	2.5	1.5	—
Canada	12.7	19.0	8.3	5.7	14.7	14.1	17.0
Total lakhs Rs. ...	7.52	4.99	2.89	2.43	3.19	4.67	4.49

## (5) Instruments.

U.K.	56.4	53.4	49.6	50.5	51.2	52.2	52.1
U.S.A.	14.7	16.4	17.6	13.9	14.1	15.4	16.8
Germany	14.3	15.7	16.5	16.9	13.9	14.4	14.3
Netherlands	3.4	3.5	3.8	3.1	3.2	3.2	3.3
Belgium	1.3	2.1	1.9	1.6	1.7	1.1	1.2
Japan	2.2	1.9	2.2	5.9	7.5	6.6	6.0
France	1.6	1.5	1.6	0.7	1.0	—	—
Italy	2.8	2.0	1.6	1.9	1.7	1.9	1.4
Total lakhs Rs. ...	5.38	4.77	3.66	3.85	4.02	4.73	5.18

## (6) Hardware. %

U.K.	35.6	36.4	36.8	30.6	34.0	32.1	31.8
U.S.A.	11.7	12.5	10.3	5.6	8.0	9.8	9.4
Sweden	—	—	—	—	—	5.7	5.7
Germany	32.6	29.9	29.1	36.1	29.9	31.1	33.2
Belgium	0.8	0.9	1.1	1.1	1.0	1.1	1.0
Japan	5.1	5.8	6.1	10.1	12.1	10.5	10.9
France	1.0	0.6	0.8	1.1	0.7	—	—
Total lakhs of Rs. ...	5.07	3.60	2.61	2.99	2.88	3.05	3.27

## (7) Chemicals.

Country	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
U.K.	57.2	54.0	54.8	52.6	55.2	55.9	55.9
U.S.A.	...	5.2	4.6	5.4	5.8	5.7	4.5
Netherlands	...	...	...	...	...	1.3	1.9
Germany	...	15.7	18.3	14.9	12.7	13.3	14.3
Belgium	...	...	...	...	...	1.1	1.2
France	...	...	...	...	...	1.3	1.3
Italy	...	7.6	7.3	5.9	5.6	4.7	3.5
Japan	...	1.9	1.7	2.3	4.9	10.2	11.5

## (8) Paper and Paste Board. %

U.K.	...	32.7	31.2	30.4	27.8	33.9	34.8	29.7
U.S.A.	...	1.2	4.5	4.4	2.8	2.3	2.2	1.6
Germany	...	12.0	9.7	10.8	10.5	7.6	9.5	19.1
France	...	1.2	.5	.4	.6	.4	—	—
Netherlands	...	7.0	7.0	6.4	4.9	4.2	4.4	3.9
Norway	...	14.2	15.0	10.4	14.2	15.2	11.7	12.6
Sweden	...	10.3	10.4	11.2	14.5	12.9	13.2	13.8
Austria	...	9.0	10.3	14.4	10.1	9.5	7.7	4.8
Total lakhs Rs. ...	...	3,72	2,87	2,50	2,85	2,63	2,73	2,99

(9) Silk Manufactures. %

U.K.	...	2.4	3.1	3.3	3.7	2.8	5.0	4.2
Germany	...	4.1	4.1	1.9	1.6	1.0	1.4	1.1
Japan	...	47.8	42.1	45.5	63.8	73.2	74.6	74.4
France	...	3.0	1.6	1.9	9.9	.7	.7	.9
Switzerland	...	3.9	3.2	5.2	1.2	.4	—	—
Italy	...	9.1	7.9	9.0	7.7	2.1	3.2	3.4
China	...	26.5	36.2	30.8	19.9	18.8	13.9	13.6
Total lakhs Rs. ...	3.35	2.11	2.11	3.16	2.87	2.80	2.20	

(10) Liquors.

U.K.	...	58.5	59.6	60.8	62.1	62.6	61.4	60.8
U.S.A.	...	5.0	5.0	6.1	6.9	6.2	5.5	6.4
Germany	...	9.9	9.3	7.8	7.6	6.6	5.9	6.5
France	...	17.0	15.4	11.8	11.6	12.7	13.6	13.3
Netherlands	...	2.5	2.9	3.5	3.0	3.5	4.2	5.0
Total lakhs Rs. ...	3.77	3.32	2.27	2.86	2.27	2.27	23.6	2.48

## (11) Sugar.

TABLE III (Contd.)

Country	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
U.K.	...	6.5	.9	4.5	9.0	14.0	11.0
Russia	...	—	4.1	14.1	2.7	—	—
Germany	...	1.7	1.4	2.9	.1	—	—
Japan	...	—	—	—	1.2	1.9	1.4
China	...	.7	.8	1.5	1.0	1.9	2.4
Java	...	82.3	90.0	73.5	80.6	73.0	73.8
Total lakhs Rs. ...	15.78	10.96	6.16	4.23	2.71	2.11	1.91

## (12) Mineral Oils.

U.K.	...	2.9	2.4	3.2	4.1	5.1	5.7	5.2
U.S.A.	...	28.3	35.1	34.1	19.6	20.4	17.1	16.4
Germany	...	2.1	1.0	.6	1.8	.7	.8	1.9
Persia	...	28.1	22.0	26.1	24.9	20.9	30.5	36.0
Borneo, Sumatra	...	20.8	13.1	12.3	14.1	12.5	18.6	13.2
U.S.S.R.	...	17.4	23.1	20.4	25.8	27.3	24.9	26.7
Total lakhs Rs. ...	11.04	10.48	9.04	6.70	5.83	6.07	5.92	

**TABLE IV.**  
**(Preference Articles) \* Trend of India's Import Trade (Rs. '000)**  
 (Value)

Articles of enjoying preference.		1931—32	1932—33	1933—34	1934—35
1. Apparel	...	22,13	21,48	20,06	18,25
2. Arms and Ammunition	...	17,25	13,47	9,85	9,05
(a) Cartridge cases	...	18,95	9,44	7,30	6,59
(b) Fire arms	...	11,16	9,46	11,22	10,63
3. Asbestos manufactures	...	5,93	5,33	5,26	5,37
4. Boots and shoes of leather	...	3,04	3,92	4,92	6,66
5. Brushes	...	32,68	23,61	20,92	24,68
6. Building material	...	64	60	1,05	1,03
7. Buttons	...				
8. Chemicals and chemical preparations	...	140,78	140,08	149,02	163,51
9. Cordage and vegetable fibre	...	2,88	2,00	2,49	2,18
10. Cork manufacture	...	81	31	58	58
11. Cutlery	...	4,80	5,30	6,41	6,78
12. Drugs and medicine	...	56,73	51,19	58,19	60,46
13. Earthenware and porcelain	...	8,57	7,88	7,67	8,67
14. Furniture etc.	...	8,15	6,20	8,65	10,55

TABLE IV (Contd.)

Articles of enjoying preference.		1931—32	1932—33	1933—34	1934—35
15.	Glue	1,26	1,01	96	90
16.	Hardware	91,00	85,00	92,00	96,34
17.	Instruments and apparatus	183,26	194,31	206,32	247,13
18.	Leather	12,89	13,15	12,50	13,62
19.	Liquors	60,48	61,11	60,26	61,58
20.	Metals and Ores	72,71	98,15	116,45	143,87
21.	Oils	30,22	25,07	30,29	28,49
22.	Oil cloth and floor cloth	2,29	3,64	3,65	4,04
23.	Packing	2,18	2,25	2,65	3,21
24.	Paints and painters material	39,67	41,48	45,45	47,58
25.	Paper and paste board	19,70	19,60	28,07	29,94
26.	Provisions	63,34	57,82	58,33	66,87
27.	Rubber manufactures	69,34	80,16	116,23	139,70
28.	Smokers' requisites	73	58	1,25	1,27
29.	Soap, toilet	21,37	24,67	23,78	24,63
30.	Stationery, pencils	35,95	32,84	35,76	35,15
31.	Haberdashery and millinery	13,16	13,65	12,19	12,06
32.	Wool and Woollen manufactures	39,68	70,90	77,50	98,30
33.	Toilet requisites	18,13	20,73	22,15	24,84
34.	Toys and requisites for games	10,65	10,46	11,62	11,96
35.	Umbrellas and fittings	6,00	3,68	3,56	3,17

36. Vehicles									
1. Cycles	...	16,98	18,53	23,18	28,23				
2. Parts of cycles and accessories	...	26,35	33,43	39,49	42,10				
3. Motor cars	...	50,36	80,06	106,15	123,73				
4. " omnibuses	...	14,43	9,85	12,35	25,62				
5. Parts of mechanically propelled vehicles and accessories	...	22,48	22,50	32,66	35,94				
Total imports from U.K. Index.	...	1261,14 (100)	1326,90 (108)	1490,51 (106)	1690,08 (125)				
% share of U.K.	...	41	40	46	44				
% " of other countries	...	59	60	54	56				
Total imports from other countries Index.	...	1816,87 (100)	2005,64 (110'4)	1761,16 (96'9)	2151,45 (118'4)				

\* Page 178, Matthal Report, Tables compiled by C. J.

1. Almost all articles improved after 1932-33.
2. Improvement in major items are rapid and phenomenal.
3. 1934-35 marks a sudden rise over 1933-34, as contrasted with India's progress in U.K.
4. Imports from other countries fell down in 1933-34 but rose up from 96'9 to 118'4 in 1934-35.

**TABLE V**  
**"The course of Indian Import trade in the articles enjoying Preference."**  
(Value)

Article		1931—32	1932—33	1933—34	1934—35
1.	Apparel	32	33	29	25
2.	Arms (a) Catridge	87	90	91	88
	(b) Fire arms	77	80	74	78
3.	Asbestos Manufactures	72	69	70	63
4.	Boots and shoes	54	37	43	45
5.	Brushes	35	31	43	48
6.	Building materials: (a) cement	63	59	64	79
	(b) others	37	35	38	39
7.	Buttons, Metal	10	6	11	10
8.	Chemicals and Chemical preparations.	55	52	55	56
9.	Cordege and rope	39	34	42	37
10.	Cork manufactures	26	8	11	9
11.	Cutlery	24	23	27	26
12.	Drugs and medicines	43	40	44	43
13.	Earthenware and porcelain	27	18	21	23
14.	Furniture and cabinetware	52	48	65	68
15.	Glue	20	20	18	24

16. Hardware	...	36	29	33	32
17. Instruments etc.	...	50	50	51	52
18. Leather etc.	...	42	36	36	34
19. Liquors (1) Ale and beer	...	62	63	63	63
(2) Spirit in drugs	...	45	40	46	44
(3) " perfumed	...	39	52	49	52
20. Metals and Ores					
1. Aluminium	...	25	43	54	45
2. Bronze, brass etc.	...	26	31	38	37
3. Copper wrought	...	34	25	46	44
4. German silver	...	16	19	22	20
5. Lead wrought	...	61	77	83	79
6. Zinc	...	21	18	21	19
21. Oils:					
1. Fish oil	...	51	16	13	62
2. Synthetic essential	...	2	5	8	7
3. Natural	...	20	16	22	26
4. Lubricating	...	24	19	25	24
5. Mineral paints etc.	...	21	39	47	46
6. Vegetable non-essential oil	...	23	9	14	3
22. Oil cloth and floor cloth	...	41	52	63	57
23. Packing	...	87	90	93	88

TABLE V (Contd.)

Article		1931—32	1932—33	1933—34	1934—35
24.	Paints and painters materials:				
	1. Paints and colours	...	63	68	68
	2. Painter's material	...	60	67	58
25.	Paper and Paste board:				
	1. Packing paper	...	14	9	10
	2. Other paper manufactures	...	34	44	44
	3. Paper Boards	...	26	37	27
		...	43	49	52
		...	31	62	68
		...	33	30	32
		...	76	74	78
		...	53	54	51
		...	27	27	20
		...	23	40	22
		...	39	43	31
		...	38	39	39
		...	29	22	24
		...	20	13	12
26.	Provisions		8		
27.	Rubber manufactures		30		
28.	Smokers' requisites		24		
29.	Soap, toilet		43		
30.	Stationery, pencils		40		
31.	Haberdashery		26		
32.	Wool (1) Yarn		80		
	(2) Manufactures		45		
33.	Toilet requisites		24		
34.	Toys etc.		25		
35.	Umbrella, etc.		33		

36. Vehicles:

1. Carriages and carts

2. Parts of carriage

3. Cycles

4. Parts of cycles

5. Motor cars

6. Omnibuses

7. Parts of mechanically propelled vehicles and accessories

...	5	34	29	54
...	61	65	61	73*
...	96	91	92	95
...	56	56	62	61
...	34	62	60	48
...	22	24	19	22
...	32	32	45	44
...	41	40	46	44
Total % of share of U.K.	...	60	54	56
Total of others	...	...	...	...

**TABLE V**  
Index showing the trend of Import Trade of India with U.K.

(Value)  
1931-32: 100.

Article		1932-33	1933-34	1934-35
1. Apparel	...	97	91	82
2. Arms & ammunitions:	...			
1. Cartridge	...	78	57	52
2. Fire arms	...	50	39	35
3. Asbestos manufacture	...	85	101	95
4. Boots and Shoes	...	90	89	91
5. Brushes	...	129	155	219
6. Building material:				
1. Cement	...	66	54	71
2. Others	...	90	93	89
7. Metal buttons	...	94	164	161
8. Chemicals and chemical preparations	...	100	106	116.
9. Cordage and rope	...	69	86	76
10. Cork manufactures	...	38	72	72

11. Cutlery	...	110	134	141
12. Drugs, medicine	...	90	103	107
13. Earthenware, porcelain	...	92	89	101
14. Furniture and cabinetware	...	76	106	129
15. Glue	...	80	76	71
16. Hardware	...	93	101	106
17. Instruments and apparatus	...	106	113	135
18. Leather	...	102	97	106
19. Liquors:				
1. Ale and beer	...	103	94	94
2. Spirit in drugs	...	93	110	114
3. " perfumed	...	112	149	175
20. Metals and Ores:				
1. Aluminium	...	125	232	227
2. Brass etc.	...	166	161	187
3. Copper	...	102	139	214
4. German silver	...	156	168	130
5. Lead	...	111	176	147
6. Zinc	...	100	140	111
21. Oils:				
1. Fish oil	...	134	75	63
2. Synthetic essential	...	650	1800	2150
3. Natural	...	78	59	79

TABLE V (Contd.)

Article		1932—33	1933—34	1934—35
21.	Oils (Contd.)			
	4. Lubricating	78	96	87
	5. Mineral Paints etc.	226	493	637
	6. Vegetable non-essential	53	84	37
22.	Oil cloth and floor cloth	109	159	176
23.	Packing	103	122	147
24.	Paints and painters' materials			
	1. Colours	105	113	120
	2. Others	102	127	123
25.	Paper and paper board :			
	1. Packing paper	79	63	82
	2. Other paper manufactures	100	161	179
	3. Paper boards	122	181	154
26.	Provisions	91	92	106
27.	Rubber manufactures	116	108	201
28.	Smokers' requisites	79	171	174
29.	Soap toilet	115	111	115
30.	Stationery, pencils	91	99	98
31.	Haberdashery and millinery	104	93	92

32. Wool: 1. Yarn	...	156	190	245
2. Manufactures	...	182	196	248
33. Toilet requisites	...	114	122	137
34. Toys etc.	...	98	109	112
35. Umbrellas	...	61	59	53
36. Vehicles:				
1. Carriages and carts	...	386	214	309
2. Parts of carriages	...	65	101	224
3. Cycles	...	109	137	166
4. Parts of cycles	...	127	150	160
5. Motor cars	...	159	211	246
6. " omnibuses	...	68	86	178
7. Parts of mechanically propelled articles etc.	...	100	145	160

TABLE VI

## The course of Indian Import Trade

% U.K.'s share in quantity.

Articles	1931-32 1932-33 1933-34 1934-35				
	...	...	...	...	...
1. Arms and ammunition	77	86	86	83	83
2. Fire arms	68	74	62	64	64
3. Boots and shoes	45	25	29	32	32
4. Brushes	14	11	18	18	18
5. Building materials	—	—	—	—	progress
6. Cordage and rope	30	30	36	22	22
7. Ale and beer	65	65	62	61	61
8. Aluminium wrought	26	42	54	48	48
9. Brass, bronze and similar alloys, wrought	24	30	36	35	35
10. Copper wrought	33	23	43	41	41
11. German silver and nickel	16	19	23	19	19
12. Lead wrought	61	71	87	92	92
13. Zinc wrought	16	14	15	13	13

14. Paints	...	58	55	59	64
15. Paper, packing	...	10	6	6	6
16. Provisions	...	27	30	32	33
17. Toilet soap	...	75	80	67	75
18. Stationery (not paper)	...	3	1	3	6
19. Woollen manufactures :					
1. Yarn	...	27	18	34	14
2. Knitting wool	...	27	35	52	33
20. Umbrellas	...	42	9	4	7
21. Motor cars	...	30	64	55	44
22. Omnibuses	...	10	19	10	12
23. Cycles	...	94	77	18	85

TABLE VII

PREFERENCE ARTICLES  
**Trend of India's Export Trade**  
 (Value in Lakhs of rupees)  
 Value.

Articles enjoying preference		1931—32	1932—33	1933—34	1934—35
1. Wheat	...	10.1	—	—	7.1
2. Rice not in husk	...	27.4	33.6	30.1	87.1
3. Vegetable oils	...	14.9	23.3	16.8	10.7
4. Linseed	...	16.5	16.5	201.2	128.0
5. Coffee	...	27.9	33.9	30.3	21.4
6. Tea	...	1692.8	1478.5	1756.6	1814.6
7. Coir, yarn, etc.	...	98.8	53.5	62.8	60.3
8. Cotton yarn	...	0.5	0.7	1.4	0.8
9. Cotton manufactures	...	16.8	29.5	12.7	5.7
10. Hides tanned	...	208.2	159.3	238.3	194.5
11. Skins	...	276.8	277.0	291.8	291.2
12. Jute manufactures	...	186.4	174.6	160.2	159.7
13. Oil seed cake	...	72.5	72.4	86.1	116.2

14. Paraffin wax	...	76.1	36.7	54.7	46.8
15. Spices	...	7.5	10.1	7.4	5.9
16. Teak and other woods	...	34.3	28.4	39.9	65.5
17. Woollen carpets, rugs	...	40.6	44.6	56.5	73.9
18. Bran, pollard, rice meal, dust	...	48.2	54.0	38.0	64.8
19. Tobacco, manufactured and un-					
manufactured	..	39.5	36.8	47.4	34.7
20. Castor seed	...	33.6	35.7	35.5	31.8
21. Sandalwood oil	...	7.0	3.5	6.2	5.7
22. Groundnut	...	114.7	57.7	66.5	170.1
23. Barley	...	13.0	8.0	—	9.1
24. Pulses	...	12.1	25.9	17.0	31.6
25. Miscellaneous goods	...	0.8	0.5	0.1	0.7
26. Lead	...	105.2	119.0	129.8	89.0
27. Manures and bones	...	3.4	5.8	8.3	11.3
28. Goat skin raw	...	43.8	49.7	77.1	40.0
29. Others	...	102.0	99.0	168.0	81.0

TABLE VIII

Trend of India's exports in preferred articles  
(Percentage Value)

Article enjoying preference		1931—32	1932—33	1933—34	1934—35	all oils fell except rape- seed
1.	Wheat	...	100	—	70.2	
2.	Rice not in husk	...	100	109.8	317.9	
3.	Vegetable oils	...	100	93.6	86.2	
4.	Linseed	...	100	100	1219.4	
5.	Coffee	...	100	121.5	108.6	775.7
6.	Tea	...	100	87.3	103.8	76.7
7.	Coir yarns and coir manufactures	...	...	...	...	107.2
8.	Cotton yarn	...	100	54.8	63.6	61.0
9.	Cotton manufactures	...	100	140.0	280.0	160.0
10.	Hides tanned	...	100	175.6	75.6	33.9
11.	Skins	...	100	76.5	114.4	93.4
12.	Jute-manufacture	...	100	100.1	105.4	105.2
		...	100	93.7	85.9	85.7

13.	Oil seed cake	100	99.9	118.7	160.3
14.	Paraffin wax	100	48.2	71.9	61.5
15.	Spices	100	134.7	98.7	78.7
16.	Teak and other hard woods...	100	82.8	116.3	191.0
17.	Woollen carpets and rugs	100	109.8	139.2	182.0
18.	Bran and pollard, rice meal, dust	100	112.0	78.8	134.4
19.	Tobacco manufactured	100	92.8	119.6	87.2
20.	Castor seed	100	99.1	87.3	91.4
21.	Sandalwood oil	100	50.0	88.6	81.4
22.	Groundnut	100	54.7	61.8	152.5
23.	Barley	100	61.5	—	70.0
24.	Pulses	100	214.0	140.5	261.1
25.	Miscellaneous food grains (except wheat pulse, barley etc.)	100	62.5	12.5	87.5
26.	Lead	100	113.1	123.4	84.5
27.	Manures and bones	100	113.5	176.0	91.3
28.	Goat skin, raw	100	113.5	176.0	91.3
29.	Others	100	97.0	165.0	81.0

**TABLE IX**  
Percentage of U. K.'s imports from India to total imports

Articles	1931	1932	1933	1934
1. Wheat	...	—	—	16
2. Rice	31.4	33.1	62.3	59.5
3. Castor oil	63.6	71.2	86.1	90.3
4. Coconut oil	.6	1.6	1.05	1.06
5. Groundnut oil	4.77	40.5	95.0	27.7
6. Rapeseed oil	—	—	23.3	11.7
7. Linseed	4.5	2.5	52.8	76.1
8. Coffee	6.1	6.8	6.9	9.0
9. Tea	51.8	55.1	55.5	54.2
10. Coir yarn	89.4	92.1	84.5	81.1
11. Matting	80.3	97.1	98.8	98.8
12. Cotton yarn	1.4	12.0	19.9	31.2
13. " manufactured	—	—	—	—
14. Hides tanned	63.4	80.2	95.3	88.2
15. Skins "	66.7	72.1	70.5	74.8
16. Jute manufactures	79.0	98.0	97.9	99.7
17. Oil seeds	29.6	23.9	41.1	42.7
18. Paraffin wax	37.5	28.4	20.3	23.0

19. Spices	...	15.6	12.0	1.9	3.57
20. Teakwood	...	73.2	88.5	90.6	88.2
21. Other wood	...	..7	..8	..5	..6
22. Wooden carpets	...	22.2	42.3	70.2	66.7
23. Bran pollard	...	40.6	34.0	36.0	37.8
24. Tobacco unmanufactured	...	4.8	5.3	6.2	4.1
25. " manufactured	...	3.8	3.2	2.8	—
26. Castor seed	...	81.3	81.6	92.9	91.4
27. Magnesium	...	1.6	10.9	14.7	10.4
28. Groundnuts	...	58.6	59.5	53.1	64.3
29. Pig lead	...	16.4	16.8	19.5	13.4
30. Barley	...	..9	1.8	—	—
31. Goatskin	...	50.0	63.6	71.0	64.0

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